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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES BASED THEREON
FOR UTILITY SERVICE BY ITS PARADISE
VALLEY WATER DISTRICT.

Docket No. W-01303A-05-0405

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing
the Direct Testimony of Marylee Diaz Cortez, William A. Rigsby, Rodney L. Moore and
Timothy J. Coley, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 17th day of January, 2006.


Daniel W. Pozefsky
Attorney

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 17th day
3 of January, 2006 with:

3 Docket Control
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6 Phoenix, Arizona 85007

5 COPIES of the foregoing hand delivered/
6 mailed this 17th day of January, 2006 to:

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By *Ernestine Gamble*
Ernestine Gamble

ARIZONA AMERICAN WATER COMPANY, INC.
(PARADISE VALLEY WATER DISTRICT)

DOCKET NO. W-01303A-05-0405

DIRECT TESTIMONY
OF
MARYLEE DIAZ CORTEZ

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 17, 2006

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1 INTRODUCTION

2 Q. Please state your name, occupation, and business address.

3 A. My name is Marylee Diaz Cortez. I am a Certified Public Accountant. I
4 am the Chief of Accounting and Rates for the Residential Utility Consumer
5 Office (RUCO) located at 1110 W. Washington, Suite 220, Phoenix,
6 Arizona 85007.

7
8 Q. Please state your educational background and qualifications in the utility
9 regulation field.

10 A. Appendix I, which is attached to this testimony, describes my educational
11 background and includes a list of the rate case and regulatory matters in
12 which I have participated.

13
14 Q. Please state the purpose of your testimony.

15 A. The purpose of my testimony is to respond to Paradise Valley Water
16 Company's (PV Water or Company) request for a Public Safety Surcharge
17 designed to recover the cost of up-sizing its system to increase fire flow
18 and the Company's request for a High Block Usage Surcharge to penalize
19 high water use customers. RUCO witness Timothy Coley will address rate
20 base and rate design, Rodney Moore will address operating income, as
21 well as sponsor RUCO's recommended revenue requirements, and
22 William Rigsby will address cost of capital.

PUBLIC SAFETY SURCHARGE

Q. Please describe PV Water's plans to up-size its system.

A. Pursuant to the request of the Town of Paradise Valley (Town), PV Water developed a capital improvement program that over time will increase fire flow levels in its service territory to 1500 gallons per minute. The program will span approximately five years and was originally estimated to cost \$16.6 million.

Q. Other than its initial request for increased fire flows, has the Town participated in the fire flow planning and implementation process?

A. Yes. PV Water and the Town formed a Water Users Advisory Group, which consisted of representation from the Town, PV Water residential and commercial customers, and Rural Metro Fire Department. The Town also formed a Water Utility Subcommittee (Subcommittee) that has met monthly since April 2003 to monitor the progress of the fire flow improvements. There are three water companies that serve the Town: PV Water, the City of Phoenix, and Berneil Water Company, each of which are present at the monthly meetings and report their fire flow improvement progress to the Subcommittee.

1 Q. Have you attended any of these meetings?

2 A. Yes. I have attended several of these meetings as well as other RUCO
3 Staff. I have also reviewed the minutes of each Subcommittee meeting
4 since April 2003.

5

6 Q. How would you characterize the Town's role in PV Water's fire flow
7 construction program?

8 A. The Town has played a very active role and is, in fact, directly responsible
9 for PV Water undertaking a \$16.6 million fire flow construction program.
10 The report of the Water Users Advisory Group candidly acknowledges that
11 PV Water "committed" to the fire flow construction plan at the request of
12 the Town.

13

14 Q. Is PV Water required by the Arizona Corporation Commission (ACC) to
15 meet a fire flow level of 1500 gallons per minute?

16 A. No. Under Arizona Administrative Code §R14-2-407, water utilities are
17 required to deliver potable water to customers at a minimum pressure of
18 20 psi. There is no requirement for 1500 gallons per minute fire flow.

19

20 Q. Do other regulated water utilities in Arizona have system-wide capacity for
21 1500 gallons a minute of fire flow?

22 A. Very few Arizona regulated water utilities have the capacity necessary to
23 generate 1500 gallons per minute.

1 Q. Why is that?

2 A. I suspect it is because the Commission does not require it, and the cost of
3 over-sizing Arizona's regulated water utilities to meet a system-wide 1500
4 gallon per minute fire flow would be cost-prohibitive and result in state
5 wide rate shock.

6
7 Q. What size mains would be required to generate 1500 gallons per minute in
8 fire flow?

9 A. Water systems would have to upsize to at least 12-inch mains to generate
10 that level of fire flow.

11
12 Q. Have you done a study of the current size of Arizona's regulated water
13 systems?

14 A. Yes. I reviewed the 2004 annual reports of 132 Arizona water companies.
15 Specifically, I looked at all water companies with at least \$100,000 in
16 annual revenue and only those with fire hydrants.¹ Out of those 132 water
17 utilities, only 24 had mains 12 inches or greater. Of those 24, only 3
18 companies had any significant portion of their system sized at 12 inches or
19 greater. Thus, PV Water's request for a near doubling of its rate base in
20 order to generate system wide fire flow at 1500 gallons per minute far
21 exceeds the norm and is unwarranted.

22

¹ Without fire hydrants the size of the main used is irrelevant to fire flow capacity.

1 Q. Who will pay the cost of the fire flow construction program?

2 A. Initially, PV Water will pay for the construction. However, the Company is
3 requesting authorization of a special surcharge that would allow it to flow
4 through the additional costs of the fire flow projects to its customers via a
5 number of step surcharges. These surcharges would be similar to the
6 Arsenic Cost Recovery Mechanism (ACRM) that has been authorized,
7 except the proposed safety surcharge would not be limited to two steps,
8 as is the ACRM. The proposed surcharge mechanism would afford PV
9 Water immediate cost recovery for fire flow improvements once in service.
10 No rate case would be required.

11
12 Q. What is the approximate rate impact of the fire flow construction project
13 once completed?

14 A. Assuming that costs do not exceed the estimated \$16.6 million, PV
15 Water's rates would have to increase by approximately \$2.5 million, or
16 49%.

17
18 Q. Is it realistic to assume the cost will not exceed \$16.6 million?

19 A. No. The Company has already indicated at a Water Subcommittee
20 meeting, in letters, and in response to data requests, that costs are
21 escalating such that the fire flow project will cost substantially more than
22 the originally estimated \$16.6 million. In response to data request RUCO
23 9.05, PV Water stated that the two bids it received on the next phase of

1 the fire flow project were 162% and 273% above the Company's original
2 estimates.

3
4 Q. What are some of the reasons why the costs are more than originally
5 estimated?

6 A. General price increases are one factor, and actions taken by the Town of
7 Paradise Valley is another factor.

8
9 Q. How has the Town contributed to the rising cost of the project?

10 A. The Town has delayed some projects from the original plan because it
11 does not want its streets torn up during the winter season. The Town also
12 has very restrictive ordinances for pavement resurfacing and requires a
13 full repaving (no patching) with a specialized substance that can only be
14 applied at certain times of the year. In some cases this will necessitate a
15 temporary surfacing, and then a permanent resurfacing at a later date.
16 The Town also has restrictions on the times of day and hours per day that
17 construction activities are permitted. The Town has insisted on special
18 designs and landscaping for certain projects to meet its aesthetic
19 standards, and has gone so far as suggesting an under grounding of
20 water tanks at considerable extra cost. All of these factors contribute to
21 the increasing cost of the project.

1 Q. How was it decided that PV Water would fund 100% of the fire flow
2 construction project?

3 A. The June 2003 Subcommittee minutes refer to the need for a Water Users
4 Working Group that would, among other things, "discuss funding of the
5 improvements". This group was subsequently formed and produced a
6 report in January 2004. There is no discussion of funding anywhere in
7 that report. In data request RUCO 6.07 I asked the Company a) to explain
8 when and between whom funding was discussed, and b) to explain how
9 the conclusion that PV Water would fund 100% of the project was
10 reached. The Company responded as follows:

11 a) The possible transfer of funds from the Town of
12 Paradise Valley to a private water company were
13 discussed at Water Utility Committee subsequent to
14 the June 3, 2003 meeting, although no specific
15 mention to these discussions is in the minutes. The
16 Water Utility Committee minutes are summarized
17 minutes and do not include all conversations or
18 discussions during a meeting.

19
20 b) The discussions focused on how the Town of
21 Paradise Valley might help to fund the infrastructure
22 improvements. It was the opinion of the Town
23 Attorney that the transfer of funds from Paradise
24 Valley to Arizona American for asset improvements
25 would not be possible due to legal statutes binding
26 the Town. This information was passed on to the
27 Paradise Valley Water Users Group.
28

1 Q. How are the funding arrangements normally handled when a third party
2 requests the construction of additional water infrastructure from a
3 regulated utility?

4 A. The regulated utility generally requires an Advance in Aid of Construction
5 (AIAC) or a Contribution in Aid of Construction (CIAC). This arrangement
6 is appropriate where the cost of the project outweighs the potential
7 revenue from the project. The proposed fire flow projects are not required
8 under ACC service standards and, as even the Company admits, are an
9 entirely discretionary undertaking.² Accordingly, the party requesting a
10 discretionary service normally funds that request.
11

12 Q. Are there other reasons why Town funding of the fire flow infrastructure is
13 appropriate?

14 A. Yes. The Town can issue bonds at a lower cost than the 12% return on
15 equity that PV Water is requesting. While residents of Paradise Valley will
16 pay for the fire flow projects through property taxes or through their utility
17 rates, the cost will be less if financed with low cost debt as opposed to
18 high cost equity.
19
20
21

² Testimony of Company witness Stephenson at page 20, line 20.

1 Q. If the Town were unwilling to contribute the cost of up-sizing PV's water
2 system for fire flow, should the cost be recovered through rates?

3 A. No. As discussed above, fire flow is not required under ACC Rules, thus
4 the cost is discretionary for PV Water. Also as previously discussed, no
5 comparable Arizona regulated utility has over-sized its water system
6 beyond what is required by ACC standards. The cost of over-sizing the
7 PV Water system will have the effect of nearly doubling the size of PV
8 Water's rate base and will have the same effect on rates.

9
10 Q. What are some of the other ramifications of granting PV Water's request
11 for rate recognition of fire flow projects?

12 A. Granting PV Water's request for rate recovery of up-sizing its system for
13 fire flow would send a message to all other Arizona water companies that
14 they can double the size of their rate bases by making similar requests,
15 thereby doubling their equity earnings. This is particularly attractive to
16 water utilities like PV Water that are built-out and have no growth
17 potential. Without growth, a utility's rate base has little reason to increase;
18 and because the only way a utility turns a profit is through its return on
19 rate base, it cannot increase its profits. Allowing massive investment in
20 fire flow to be included in rates will allow utilities a perfect opportunity to
21 maximize their earnings at ratepayer expense and create rate shock in
22 Arizona's water industry as a whole.

1 Q. Are there any other ramifications of granting rate treatment of the fire flow
2 projects?

3 A. Yes. The Company has proposed that cost recovery of the fire flow
4 projects be through a series of "step" rate increases. As portions of the
5 fire flow projects are completed the Company will receive rate increases to
6 recover those costs. No rate case would be required.

7
8 Q. Is this the normal way for water companies to receive rate recognition of
9 plant additions?

10 A. No. Under Arizona Administrative Code § R14-02-103 rates are examined
11 in the context of a historical test year. Thus, under normal ratemaking
12 practices, companies' plant additions are reviewed in the context of a rate
13 case and the revenue requirement for those additions is determined in
14 conjunction with all the other ratemaking elements.

15
16 Q. Has the Commission ever departed from the normal ratemaking practice?

17 A. Yes, but only under very unique sets of circumstances. An ACRM was
18 approved for several Arizona water companies, including AZ-AM's Havasu
19 and Sun City West systems. The ACRM allowed the costs associated
20 with arsenic removal to be recovered through two-step rate increases that
21 would be implemented outside of a rate case. Arsenic removal, however,
22 was mandated by the Federal government, and was not a discretionary
23 project as is the fire flow.

1 Q. Please summarize your recommendation.

2 A. PV Water's request for automatic step rate increases to fund the cost of
3 up-sizing its system for fire flow should be denied. Further, the
4 Commission's Rules do not require this up-sizing, and thus the planned
5 construction projects are discretionary and are not necessary for the
6 provision of water service. The fire flow projects will produce no
7 incremental income to the Company, yet will more than double the
8 Company's rate base. Under these circumstances the appropriate
9 ratemaking treatment is to require the party requesting the service to
10 make a CIAC to fund the infrastructure.

11
12 **HIGH BLOCK USAGE SURCHARGE**

13 Q. Please describe the Company's request for a High Block Usage
14 Surcharge?

15 A. The Company is requesting what it describes as "two separate non-cost of
16 service-based surcharges on all units of water consumed by customers in
17 the final block of the approved tariff."³

18
19 Q. What does "non-cost of service-based" mean?

20 A. The Company's proposed High Block Usage Surcharges are designed to
21 create revenue in excess of its revenue requirement. The Company
22 proposes to recover its revenue requirement through its authorized

³ Testimony of Company witness Stephenson at page 34

1 customer tariffs. The surcharge would generate additional revenue in
2 excess of that revenue requirement. In effect the surcharges will generate
3 windfall profits for the Company.

4
5 Q. Are you aware of any rate case where the Commission has authorized
6 tariffs designed to recover revenues in excess of a utility's cost of service?

7 A. No. The Commission sets rates for the utility to recover its reasonable
8 and prudent cost of service plus a fair return on its rate base.

9
10 Q. What is the purpose of the proposed non-cost of service-based
11 surcharges?

12 A. According to the Company, the purpose of the non-cost of service
13 surcharges is to promote conservation. The charges would apply only to
14 consumption in the final block of the approved tariff. The charge proposed
15 is \$2.00 per unit consumed in the high block up to the last 5% of that block
16 which would be charged at \$5.00 per unit. At test year consumption levels
17 these surcharges will generate additional annual revenue of approximately
18 \$1.6 million.

1 Q. What is the Company's rationale for proposing surcharges that will
2 generate excess revenues?

3 A. The Company indicates that it will account for these surcharges as CIAC,
4 which will have the effect of "relieving customers from some of the cost of
5 service".

6
7 Q. How so?

8 A. The Company explains that the revenues collected from the surcharges
9 would be accounted for as contributed plant and serve as a deduction to
10 rate base.

11
12 Q. So are the proposed rates in this case lower than they otherwise would be
13 because of these surcharges that will be recorded as CIAC?

14 A. No. As proposed by the Company, the \$1.6 million in annual revenue that
15 will be collected under the surcharge will not impact rates until the
16 Company files another rate case. In the meantime the Company will
17 realize an additional \$1.6 million in revenue each year. By May 2010,
18 when the Company will be required to file for permanent rates under the
19 provisions of the ACRM, PV Water will have collected over \$6.4 million in
20 ratepayer money for which ratepayers have received no benefit.
21 Conversely, PV Water will have enjoyed \$6.4 million in revenue at a zero
22 cost. Considering that PV Water's test year net income was

1 approximately \$600,000, the \$1.6 million in surcharge revenue will create
2 a windfall for the Company.
3

4 Q. What is your recommendation?

5 A. The Company's request for the High Block Usage surcharges should be
6 denied. There is no evidence that such charges will have any impact on
7 consumption. More importantly, however, these proposed surcharges are
8 not cost-based and will create windfall revenues for the Company, with no
9 associated revenue requirement. These surcharges will not meet the
10 ratemaking criteria of fair and reasonable rates since there is no cost of
11 service associated with these proposed charges.
12

13 Q. Does this conclude your direct testimony?

14 A. Yes.
15
16
17
18
19
20
21

APPENDIX I

APPENDIX I

Qualifications of Marylee Diaz Cortez

- EDUCATION:** University of Michigan, Dearborn
B.S.A., Accounting 1989
- CERTIFICATION:** Certified Public Accountant - Michigan
Certified Public Accountant - Arizona
- EXPERIENCE:** Audit Manager
Residential Utility Consumer Office
Phoenix, Arizona 85007
July 1994 - Present

Responsibilities include the audit, review and analysis of public utility companies. Prepare written testimony, schedules, financial statements and spreadsheet models and analyses. Testify and stand cross-examination before Arizona Corporation Commission. Advise and work with outside consultants. Work with attorneys to achieve a coordination between technical issues and policy and legal concerns. Supervise, teach, provide guidance and review the work of subordinate accounting staff.

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona 85004
October 1992 - June 1994

Responsibilities included the audit, review and analysis of public utility companies. Prepare written testimony and exhibits. Testify and stand cross-examination before Arizona Corporation Commission. Extensive use of Lotus 123, spreadsheet modeling and financial statement analysis.

Auditor/Regulatory Analyst
Larkin & Associates - Certified Public Accountants
Livonia, Michigan
August 1989 - October 1992

Performed on-site audits and regulatory reviews of public utility companies including gas, electric, telephone, water and sewer throughout the continental United States. Prepared integrated proforma financial statements and rate models for some of the largest public utilities in the United States. Rate models consisted

of anywhere from twenty to one hundred fully integrated schedules. Analyzed financial statements, accounting detail, and identified and developed rate case issues based on this analysis. Prepared written testimony, reports, and briefs. Worked closely with outside legal counsel to achieve coordination of technical accounting issues with policy, procedural and legal concerns. Provided technical assistance to legal counsel at hearings and depositions. Served in a teaching and supervisory capacity to junior members of the firm.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Client</u>
Potomac Electric Power Co.	Formal Case No. 889	Peoples Counsel of District of Columbia
Puget Sound Power & Light Co.	Cause No. U-89-2688-T	U.S. Department of Defense - Navy
Northwestern Bell-Minnesota	P-421/EI-89-860	Minnesota Department of Public Service
Florida Power & Light Co.	890319-EI	Florida Office of Public Counsel
Gulf Power Company	890324-EI	Florida Office of Public Counsel
Consumers Power Company	Case No. U-9372	Michigan Coalition Against Unfair Utility Practices
Equitable Gas Company	R-911966	Pennsylvania Public Utilities Commission
Gulf Power Company	891345-EI	Florida Office of Public Counsel

Jersey Central Power & Light	ER881109RJ	New Jersey Department of Public Advocate Division of Rate Counsel
Green Mountain Power Corp.	5428	Vermont Department of Public Service
Systems Energy Resources	ER89-678-000 & EL90-16-000	Mississippi Public Service Commission
El Paso Electric Company	9165	City of El Paso
Long Island Lighting Co.	90-E-1185	New York Consumer Protection Board
Pennsylvania Gas & Water Co.	R-911966	Pennsylvania Office of Consumer Advocate
Southern States Utilities	900329-WS	Florida Office of Public Counsel
Central Vermont Public Service Co.	5491	Vermont Department of Public Service
Detroit Edison Company	Case No. U-9499	City of Novi
Systems Energy Resources	FA-89-28-000	Mississippi Public Service Commission
Green Mountain Power Corp.	5532	Vermont Department of Public Service
United Cities Gas Company	176-717-U	Kansas Corporation Commission

General Development Utilities	911030-WS & 911067-WS	Florida Office of Public Counsel
Hawaiian Electric Company	6998	U.S. Department of Defense - Navy
Indiana Gas Company	Cause No. 39353	Indiana Office of Consumer Counselor
Pennsylvania American Water Co.	R-00922428	Pennsylvania Office of Consumer Advocate
Wheeling Power Co.	Case No. 90-243-E-42T	West Virginia Public Service Commission Consumer Advocate Division
Jersey Central Power & Light Co.	EM89110888	New Jersey Department of Public Advocate Division of Rate Counsel
Golden Shores Water Co.	U-1815-92-200	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-92-135	Residential Utility Consumer Office
Sulphur Springs Valley Electric Cooperative	U-1575-92-220	Residential Utility Consumer Office
North Mohave Valley Corporation	U-2259-92-318	Residential Utility Consumer Office
Graham County Electric Cooperative	U-1749-92-298	Residential Utility Consumer Office

Graham County Utilities	U-2527-92-303	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-93-110	Residential Utility Consumer Office
Litchfield Park Service Co.	U-1427-93-156 & U-1428-93-156	Residential Utility Consumer Office
Pima Utility Company	U-2199-93-221 & U-2199-93-222	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-94-306	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-182	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-310 & U-1303-94-401	Residential Utility Consumer Office
Pima Utility Company	U-2199-94-439	Residential Utility Consumer Office
SaddleBrooke Development Co.	U-2492-94-448	Residential Utility Consumer Office
Boulders Carefree Sewer Corp.	U-2361-95-007	Residential Utility Consumer Office
Rio Rico Utilities	U-2676-95-262	Residential Utility Consumer Office
Rancho Vistoso Water	U-2342-95-334	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-95-491	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-473	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-417 et al.	Residential Utility Consumer Office

Paradise Valley Water	U-1303-96-283 & U-1303-95-493	Residential Utility Consumer Office
Far West Water	U-2073-96-531	Residential Utility Consumer Office
Southwest Gas Corporation	U-1551-96-596	Residential Utility Consumer Office
Arizona Telephone Company	T-2063A-97-329	Residential Utility Consumer Office
Far West Water Rehearing	W-0273A-96-0531	Residential Utility Consumer Office
SaddleBrooke Utility Company	W-02849A-97-0383	Residential Utility Consumer Office
Vail Water Company	W-01651A-97-0539 & W-01651B-97-0676	Residential Utility Consumer Office
Black Mountain Gas Company Northern States Power Company	G-01970A-98-0017 G-03493A-98-0017	Residential Utility Consumer Office
Paradise Valley Water Company Mummy Mountain Water Company	W-01303A-98-0678 W-01342A-98-0678	Residential Utility Consumer Office
Bermuda Water Company	W-01812A-98-0390	Residential Utility Consumer Office
Bella Vista Water Company Nicksville Water Company	W-02465A-98-0458 W-01602A-98-0458	Residential Utility Consumer Office
Paradise Valley Water Company	W-01303A-98-0507	Residential Utility Consumer Office
Pima Utility Company	SW-02199A-98-0578	Residential Utility Consumer Office
Far West Water & Sewer Company	WS-03478A-99-0144 Interim Rates	Residential Utility Consumer Office

Vail Water Company	W-01651B-99-0355 Interim Rates	Residential Utility Consumer Office
Far West Water & Sewer Company	WS-03478A-99-0144	Residential Utility Consumer Office
Sun City Water and Sun City West	W-01656A-98-0577 & SW-02334A-98-0577	Residential Utility Consumer Office
Southwest Gas Corporation ONEOK, Inc.	G-01551A-99-0112 G-03713A-99-0112	Residential Utility Consumer Office
Table Top Telephone	T-02724A-99-0595	Residential Utility Consumer Office
U S West Communications Citizens Utilities Company	T-01051B-99-0737 T-01954B-99-0737	Residential Utility Consumer Office
Citizens Utilities Company	E-01032C-98-0474	Residential Utility Consumer Office
Southwest Gas Corporation	G-01551A-00-0309 & G-01551A-00-0127	Residential Utility Consumer Office
Southwestern Telephone Company	T-01072B-00-0379	Residential Utility Consumer Office
Arizona Water Company	W-01445A-00-0962	Residential Utility Consumer Office
Litchfield Park Service Company	W-01427A-01-0487 & SW-01428A-01-0487	Residential Utility Consumer Office
Bella Vista Water Co., Inc.	W-02465A-01-0776	Residential Utility Consumer Office
Generic Proceedings Concerning Electric Restructuring Issues	E-00000A-02-0051	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-02-0707	Residential Utility Consumer Office
Qwest Corporation	RT-00000F-02-0271	Residential Utility Consumer Office

Arizona Public Service Company	E-01345A-02-0403	Residential Utility Consumer Office
Citizens/UniSource	G-01032A-02-0598 E-01032C-00-0751 E-01933A-02-0914 E-01302C-02-0914 G-01302C-02-0914	Residential Utility Consumer Office
Arizona-American Water Company	WS-01303A-02-0867	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-03-0437	Residential Utility Consumer Office
UniSource	E-04230A-03-0933	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-04-0407	Residential Utility Consumer Office
Qwest Corporation	T-01051B-03-0454 & T-00000D-00-0672	Residential Utility Consumer Office
Tucson Electric Power Company	E-01933A-04-0408	Residential Utility Consumer Office
Arizona-American Water Company	W-1303A-05-0280	Residential Utility Consumer Office
Southwest Gas Corporation	G-01551A-04-0876	Residential Utility Consumer Office

ARIZONA AMERICAN WATER COMPANY, INC.
(PARADISE VALLEY WATER DISTRICT)

DOCKET NO. W-01303A-05-0405

DIRECT TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 17, 2006

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INTRODUCTION

Q. Please state your name, position, employer and address.

A. Rodney L. Moore, Public Utilities Analyst V

Residential Utility Consumer Office ("RUCO")

1110 West Washington Street, Suite 220

Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate case and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations regarding Arizona-American Water Company, Inc. ("Company" or "Arizona-American") application for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for utility service by its Paradise Valley Water District ("PV Water"). The test year utilized by the Company in connection with the preparation of this application is the 12-month period that ended December 10, 2004.

...

BACKGROUND

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures necessary to understand the Company's filing as it relates to the operating income and revenue requirements. My recommendations are based on these analyses. Procedures performed include the in-house formulation and analysis of ten sets of Data Requests, the review and analysis of Company responses to Commission Staff Data Requests, on-site inspection and conversations with Company personnel.

The Commission in Decision No. 61831, dated July 20, 1999, approved the Company's present rates and charges for utility service. The test year used in that proceeding was the 12-month period ending June 30, 1998.

Q. What areas will you address in your testimony?

A. I will address issues related to operating income, arsenic cost recovery mechanism ("ACRM"), and revenue requirements. RUCO's witness William A. Rigsby will provide an analysis of the cost of capital. RUCO's witness Timothy J. Coley will address issues related to rate base and rate design. Finally, RUCO's witness Marylee Diaz Cortez will provide an analysis of the public safety surcharge and the high-block usage surcharge.

...

Q. Please identify the exhibits you are sponsoring.

A. I am sponsoring Schedules numbered RLM-1 through RLM-13.

SUMMARY OF ADJUSTMENTS

Q. Please summarize the adjustments to rate base, operating income and revenue requirement issues addressed in your testimony.

A. My testimony addresses the following issues:

Operating Income

Office Lease Reclassification – Company and RUCO agree to recognize the erroneous recording of the lease payments.

Group Insurance Normalization – RUCO made adjustments to the insurance costs, employee contributions and percentage of capitalized labor when calculating the normalized group insurance expense.

Other Post-Retirement Employee Benefits Expense Normalization – RUCO made an adjustment to the percentage of capitalized labor when calculating the normalized other post-retirement employee benefits (“OPEB”) expense.

Rate Case Expense Normalization And Amortization – The adjustment is based on RUCO’s determination of the fair and reasonable cost to PV Water ratepayers for this application process.

...

...

...

1 Pension Expenses Not Posted To General Ledger - RUCO made
2 adjustments to the number of Arizona-American active pension
3 participants, and the number of equivalent employees working for PV
4 Water when calculating the pension expense.

5 Materials And Supplies Reclassification, Normalization And Amortization –
6 RUCO disallowed this adjustment, since the Company was already being
7 compensated through the Corporate Office allocation.

8 Operation And Maintenance Labor Normalization – RUCO made
9 adjustments to the employee count, hours worked at PV Water and
10 percentage of annual labor attributable to PV Water when calculating the
11 normalized labor expense.

12 Depreciation Expense – RUCO made adjustments to the test-year gross
13 plant in service, amortization of the Mummy Mountain acquisition and the
14 amortization of the ratepayers' portion of the "gain on the sale of land"
15 when calculating the depreciation expense.

16 Property Taxes Expense – The first adjustment removes property taxes
17 associated with the Miller Road Treatment Facility ("MRTF"). The second
18 adjustment reflects the Company's property tax based on the use of the
19 Arizona Department of Revenue ("ADOR") formula.

20 Payroll Tax Normalization – This adjustment reflects the appropriate level
21 of payroll tax expense given RUCO's recommended level of operations
22 and maintenance labor.

23 ...

RUCO Adjustments To Administration And General Allocated Expenses –

This adjustment reflects RUCO's position that certain categories of expenses should not be the financial burden of the ratepayers.

RUCO Adjustment To Capitalize Expenses – Company and RUCO agree to capitalize certain operations and maintenance expenses.

Income Tax - This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

REVENUE REQUIREMENTS

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirement.

A. As outlined in Schedule RLM-1, RUCO is recommending that the Company's revenue requirement not exceed:

<u>ARIZONA-AMERICAN</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
\$5,348,660	\$4,628,319	(\$720,341)

RUCO's recommended decrease in Fair Value Rate Base ("FVRB") is based on the Original Cost Rate Base ("OCRB") and is summarized on Schedule RLM-1:

<u>ARIZONA-AMERICAN</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
\$11,651,216	\$10,898,953	(\$752,263)

...

...

1 The detail supporting RUCO's recommended rate base is presented in the
2 testimony of RUCO's witness Timothy J. Coley.

3
4 My recommended decrease in required operating income is shown on
5 Schedule RLM-1 as:

6	<u>ARIZONA-AMERICAN</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
7	\$277,980	(\$442,361)	(\$720,341)

8
9 RUCO's recommended revenue requirement percentage decrease versus
10 the Company's proposal is as follows:

11	<u>ARIZONA-AMERICAN</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
12	5.48 %	-8.72 %	-14.20 %

13
14 Schedule RLM-1 presents the calculation of RUCO's recommended
15 revenue requirement.

16
17 **OPERATING INCOME**

18 Operating Income Summary

19 Q. Is RUCO recommending any changes to the Company's proposed
20 operating expenses?

21 A. Yes. As shown on Schedule RLM-3, pages 1 through 4, columns (A)
22 through (P), I analyzed the Company's twenty-nine adjustments to its
23 historical test-year operating income and made thirteen adjustments to the

1 operating income as filed by the Company. My review, analysis and
2 adjustments are explained below.

3
4 Operating Income Adjustment No. 1 – Reclassification of Office Lease

5 Q. Please discuss the reason for reclassifying the office lease expense.

6 A. Through discovery, RUCO agreed with Arizona-American's adjustment to
7 normalize and reclassify the office lease expenses.

8
9 However, as stated in the response to RUCO Data Request 7.04.e, the
10 Company agreed that a portion of the test-year lease payments was
11 erroneously recorded in the Administration and General account.

12
13 Therefore, both the Company and RUCO agree to reclassify the
14 erroneously recorded portion of the office lease expenses.

15
16 As shown on Schedule RLM-3, page 1, column (A), line 22, this
17 adjustment decreases adjusted test-year expenses by:
18 (\$14,593).

19
20 Operating Income Adjustment No. 2 – Normalized Group Insurance

21 Q. Please explain your adjustment to the group insurance expense.

22 A. My adjustment to determine the normalized level of group insurance
23 expense consists of three elements. First, I adjusted the projected annual

1 costs of the group insurance. Second, I adjusted the employee
2 contribution credit. Third, I adjusted the percentage of capitalized labor.

3
4 Q. Please explain the basis of the three elements of your adjustment.

5 A. All three adjustments are based on my computation of the percentage of
6 each employee's time allocated to PV Water, which differs from the
7 Company's pro forma percentage.

8
9 As outlined in Schedule RLM-4, I determined the level of group insurance
10 expense using all the same parameters as the Company did except the
11 percentage of each employee's time allocated to PV Water.

12
13 My computation of the percentage of each employee's time allocated to
14 PV Water is explained in Adjustment No. 7 below.

15
16 As shown on Schedule RLM-3, page 1, column (B), line 22, this
17 adjustment decreases adjusted test-year expenses by:
18 (\$2,972).

19
20 Operating Income Adjustment No. 3 – OPEB Expense Normalization

21 Q. Please explain your adjustment to the OPEB expense.

22 A. My adjustment to determine the normalized level of the OPEB expense is
23 based on the percentage of capitalized labor, which is an element of my

1 computation of the percentage of each employee's time allocated to PV
2 Water, which differs from the Company's pro forma percentage.

3
4 As outlined in Schedule RLM-5, I determined the level of OPEB expense
5 using all the Company's parameters except the percentage of each
6 employee's time allocated to PV Water.

7
8 My computation of the percentage of each employee's time allocated to
9 PV Water is explained in Adjustment No. 7 below.

10
11 As shown on Schedule RLM-3, page 1, column (C), line 22, this
12 adjustment decreases adjusted test-year expenses by:
13 (\$2,093).

14
15 Operating Income Adjustment No. 4 – Rate Case Expense

16 Q. Please explain the adjustment to the rate case expense.

17 A. RUCO made a determination of what should be the financial burden on
18 the ratepayers for the cost incurred by the Company for filing this rate
19 case application.

20
21 Q. What level of rate case expense had PV Water requested?

22 A. PV Water is requesting \$282,847 in rate case expense.

23 ...

1 Q. Please explain the basis for determining the appropriate level of rate case
2 expense.

3 A. My adjustment consists of two elements. First, I analyzed: previously
4 approved rate case expenses for PV Water; reviewed other rate case
5 expenses authorized by the Commission; and examined the complexity of
6 this rate case to determine a reasonable financial burden on ratepayers
7 for this proceeding. Second, I analyzed the Company's testimony to
8 determine the period to amortize these expenses.

9
10 Q. Please explain your analysis to determine the ratepayers' appropriate
11 level of financial burden for this rate case proceeding.

12 A. My analysis consisted of the following review:

- 13 1. Previous PV Water Decision Nos. 57834, 58419, 59070, 60220 and
14 61831 had approved rate case expenses of \$39,570, \$39,570,
15 \$58,150, \$31,100 and \$60,000 respectively;
- 16 2. Arizona-American Decision No. 67093 approved an average of
17 \$41,894 per district;
- 18 3. Arizona Water was authorized rate case expenses for its Northern
19 Group at \$43,400 per district, the Eastern Group at \$31,250 per
20 district, and the Western Group at \$50,710 per district;
- 21 4. For a reality check, I reviewed the recent filing by Southwest Gas
22 Corporation, Arizona Division with a rate base over a billion dollars
23 and a customer base of nearly a million ratepayers, which

1 requested rate case expenses of \$235,000 (\$47,841 less than the
2 Company is requesting in the instant case) in its pending rate
3 application.

4
5 Q. Did you consider the instant case to be complex with issues that would
6 warrant extraordinary costs for research and analysis to determine the
7 appropriate revenue requirement?

8 A. No, there are no contentious issues requiring an abnormal level of
9 discovery, investigation, documentation or litigation.

10
11 Q. How did you calculate rate case expenses of \$73,179 for this proceeding?

12 A. In the previous rate case, Decision No. 61831, dated July 20, 1999, the
13 Company concurred with Staff's adjusted rate case expenses of \$60,000.
14 Even though \$60,000 is the highest expense approved among the 28
15 districts reviewed, I considered it fair, reasonable and previously
16 supported by the Company.

17
18 Therefore, using the consumer price index inflation calculator I projected
19 the 1999 expense into 2005 dollars and determined the appropriate level
20 of rate case expense at \$73,179.

21 ...

22 ...

23 ...

1 Q. Please discuss the second element of your adjustment to the rate case
2 expenses.

3 A. My second element was to determine the appropriate amortization period
4 for the rate case expenses.

5
6 Company witness Stephenson states on page 5 of his testimony that
7 Arizona-American presently plans to file its next general rate case for PV
8 Water not later than May 2010.

9
10 It is reasonable to project the effective date of the new rates and charges
11 in the instant case to be May 2006 with future rates and charges being
12 implemented in May 2011 (one year after filing next general rate case).

13
14 Therefore, the appropriate amortization of rate case expenses in this
15 proceeding is five years ($2011 - 2006 = 5$ years). The Company has
16 proposed a three-year amortization period.

17
18 Q. Please explain the effect of your two elements of this adjustment on the
19 rate case expense.

20 A. RUCO believes the appropriate annual level of rate case expenses
21 associated with this proceeding is \$14,636 ($\$73,179 / 5 = \$14,636$).

22 ...

23 ...

As shown on Schedule RLM-3, page 1, column (D), line 22, this adjustment decreases adjusted test-year expenses by: (\$79,644).

Operating Income Adjustment No. 5 – Pension Expense

Q. Please explain your adjustment to the Pension expense.

A. My adjustment to determine the normalized level of Pension expense consists of three elements. First, I adjusted the number of active pension participants.

Second, I adjusted the number of full-time equivalent employees working at PV Water. Third, I adjusted the percentage of capitalized labor.

Q. Please explain the basis of the first element of your adjustment.

A. In response to RUCO Data Request. 5.05, the Company indicated the actual end of the test-year number of active pension participants was 136 (versus the 115 recorded in the filing). Therefore, I used this information to make the first element of this adjustment.

...

...

...

...

...

1 Q. Please explain the basis of the second and third elements of your
2 adjustment.

3 A. Elements two and three are based on my computation of the percentage
4 of each employee's time allocated to PV Water, which differs from the
5 Company's pro forma percentage.

6
7 As outlined in Schedule RLM-6, I determined the level of pension expense
8 using all the Company's parameters except the percentage of each
9 employee's time allocated to PV Water.

10
11 My computation of the percentage of each employee's time allocated to
12 PV Water is explained in Adjustment No. 7 below.

13
14 As shown on Schedule RLM-3, page 1, column (E), line 22, this
15 adjustment decreases adjusted test-year expenses by:
16 (\$12,037).

17
18 Operating Income Adjustment No. 6 – Write-Off Of Materials And Supplies

19 Q. Please explain your adjustment to write-off materials and supplies.

20 A. My adjustment disallows the Company's pro forma adjustment to
21 reclassify and amortize PV Water's materials and supplies inventory in the
22 instant case.

23 ...

1 PV Water's materials and supplies inventory was transferred to Arizona-
2 American Central Division in December 2004 and has been embedded in
3 the test-year actual Operations - Administration and General account.

4
5 Arizona-American recovers the cost of these materials and supplies
6 through the Corporate Office Allocation to PV Water, as well as through
7 allocations to all its Arizona districts.

8
9 Disallowance of this adjustment prevents double counting the recovery of
10 the cost of this inventory.

11
12 As shown on Schedule RLM-3, page 1, column (F), line 22, this
13 adjustment decreases adjusted test-year expenses by:
14 (\$11,184).

15
16 Operating Income Adjustment No. 7 – Normalized Labor

17 Q. Please discuss your adjustment to the Company's proposed labor
18 expense.

19 A. My adjustment consists of five elements. First, I removed test-year
20 expenses associated with a contract laborer. Second, I included the test-
21 year hours of work associated with this contract laborer. Third, I
22 determined the actual number of employees and time spent in the test
23 year to accomplish the work required for the provisioning of water service

1 to the test-year customer base. Fourth, I calculated the projected level of
2 wages and salaries by accepting the Company's 2005 pay scale as filed.
3 Fifth, I calculated the percentage of time actually worked for PV Water
4 versus the total hours worked for Arizona-American.

5
6 Q. Please explain the first and second elements of your adjustment to the
7 labor expense.

8 A. I concurred with the Company to include a new employee hired in early
9 2005 who had been a contract laborer throughout the test year.
10 Therefore, I removed the costs associated with this contract laborer from
11 the operations and maintenance expenses and increased the head count
12 and total hours of my labor adjustment to reflect the inclusion of the actual
13 test-year hours worked by this contractor.

14
15 Q. Please explain the third element of your adjustment to the labor expense.

16 A. Through discovery and the Company's response to RUCO Data Request
17 3.09, I was able to reconstruct the actual employee list and total hours
18 worked during the test year.

19
20 Q. Why is it important to accurately reconstruct the test-year labor force?

21 A. To avoid a mismatch among the ratemaking elements it is important to
22 accurately reflect the test-year level of employees and hours worked in
23 support of providing adequate utility services to the test-year customer

1 base. This balances the cost of providing service with the revenue
2 generated.

3
4 Q. What did the Company propose in its proforma adjustment to the labor
5 expense?

6 A. The Company's adjustment to normalize operations and maintenance
7 labor increases the test-year number of hours worked for PV Water by
8 7,636 hours and increases the number of full time employees by 7.

9
10 Q. Is there any justification for the magnitude of this increase in labor costs?

11 A. No. There has been no growth in customers or consumption in PV
12 Water's service territory. As shown on Schedule F-4, PV Water has also
13 assumed there will be no customer growth and/or increased consumption
14 in developing its own projections. Therefore, there is no acceptable
15 reason to inflate the size and work hours of the test-year work force.

16
17 Q. Please explain the fourth element of your adjustment to the labor expense.

18 A. I concurred with the Company to adjust the wages and salaries of the
19 work force to reflect the payroll increases implemented in early 2005.

20
21 Therefore, I adjusted the hourly rate of pay to reflect information provided
22 by the Company in this filing.

23 ...

1 Q. Please explain the fifth element of your adjustment to the labor expense.

2 A. I determined the percentage of time worked at PV Water versus total
3 hours working for Arizona-American. This element is important to properly
4 allocate labor costs and labor related expenses to PV Water.

5
6 To properly allocate these labor costs and labor related expenses I
7 concurred with the Company's methodology for determining the
8 appropriate level of group insurance, OPEB, pension and payroll taxes by
9 implementing my percentage factor in the Company's formula.

10
11 Q. Please summarize your adjustment to the labor expense.

12 A. As shown on Schedule RLM-7 and my associated workpapers, I
13 computed the number of employees, total annual hours, percentage of
14 time spent at PV Water and payroll expense required to provide adequate
15 utility services to the test-year customer base.

16
17 As shown on Schedule RLM-3, pages 1 and 2, column (G), I am
18 recommending a normalized level of payroll expense of \$424,254, which
19 is \$17,083 more than the actual test year and \$161,443 less than the
20 Company's proposed level.

21
22 This adjustment decreases adjusted test-year expenses by:
23 (\$161,443).

Operating Income Adjustment No. 8 – Depreciation Expense

Q. Please explain your adjustment to the depreciation expense.

A. My adjustment to depreciation expense consists of three elements. First, I adjusted depreciation expense to reflect the Commission's approved depreciation rates applied to RUCO's recommended plant balances. Second, I adjusted the amortization of Mummy Mountain Acquisition. Third, I included the amortization of the ratepayers' portion of the "gain on sale of land".

Q. Please explain the first element of your adjustment.

A. As shown on Schedule RLM-8, page 2, column (C), I calculated the test-year depreciation expense on RUCO's adjusted total plant value applying the Commission's approved depreciation rates.

Q. Please explain the second element of your adjustment.

A. As shown on Schedule RLM-8, page 1, Note A, I calculated the test-year amortization expense on the Mummy Mountain Acquisition. This adjustment corrects the Company's calculation by using the authorized amortization period as approved in Decision No. 61307 of 25 years (not 20 years as formulated by the Company).

...

...

...

1 Q. Please explain the third element of your adjustment.

2 A. As shown on Schedule RLM-8, page 1, Note B, I calculated the test-year
3 amortization expense for the ratepayers' portion of the "gain on the sale of
4 land" as described in Company witness Stephenson's testimony starting
5 on page 35. This adjustment accurately reflects the treatment of this gain
6 to properly account for the annual disbursement of the ratepayers' portion
7 of the appreciation realized from the sale of utility plant property.

8
9 Q. Why was it necessary to add in the amortized income from the "gain on
10 sale of land"?

11 A. The Company proposes the ratepayers' portion of the gain be provided as
12 a surcredit to the ratepayers over five years, and not be reflected in the
13 base rates set in this case. The Company's proposal has the effect of
14 depriving ratepayers of the time value of their portion of the gain. RUCO's
15 recommendation to amortize the gain to the income statement and
16 decrease the rate base by the amount of the gain recognizes that until this
17 gain is fully credited to ratepayers it represents cost-free capital to PV
18 Water that should not earn a return.

19
20 Q. Please summarize your total adjustment to the test-year depreciation
21 expense.

22 A. As shown on Schedule RLM-3, page 2, column (H), line 32, this
23 adjustment decreases adjusted test-year expenses by:

1 (\$72,676).

2
3 Operating Income Adjustment No. 9 – Property Tax

4 Q. Please explain your first adjustment to the Property Tax Expense account.

5 A. As shown on Schedule RLM-9, I made an adjustment to remove the
6 portion of the property taxes recovered from Motorola through the MRTF
7 agreement.

8
9 Through discovery and the Company's response to RUCO Data Request
10 4.01, I was able to determine the amount of property tax associated with
11 the MRTF. Also, it was the only expense associated with the MRTF that
12 was not included in the Company's adjustments to exclude MRTF test-
13 year expenses.

14
15 Therefore, as stated in Company's witness Fulter's testimony starting at
16 page 5, all costs related to the operation of the MRTF are the
17 responsibility of the North Indian Bend Wash Participating Companies, I
18 removed the property tax expense from PV Water's test-year expenses.

19
20 As shown on Schedule RLM-3, page 4, column (I), line 33, this adjustment
21 decreases adjusted test-year expenses by:

22 (\$56,844).

23 ...

Operating Income Adjustment No. 10 – Property Tax

Q. Please explain your second adjustment to the Property Tax Expense account.

A. As shown on Schedule RLM-10, I made an adjustment to reflect the Company's property tax based on the use of the ADOR formula.

Q. Please explain the basis of RUCO's adjustment to property tax expenses.

A. As has been debated in several recent water utility rate case applications before the Commission, RUCO has maintained that using historical revenues in the ADOR formula, as the formula dictates, is the best estimate of future property taxes. RUCO is more convinced than ever that this is the proper way to measure property tax, now that actual post-test-year property tax expense is known, and comparisons can be made.

In this case the comparison of actual property tax for 2005 to the estimates using the ADOR recommended revenues and the Company's recommended revenues illustrates that the use of ADOR's formula is far more accurate.

Q. How does this Company methodology vary from the ADOR formula?

A. The Company has varied the ADOR formula by using, for valuation purposes, two years of adjusted revenues plus one year of proposed revenues.

1 The property tax formula, as prescribed in ADOR's memo of January 3,
2 2001, determines the Full Cash Value ("FCV") of water utilities, for
3 property tax purposes, by multiplying the average of the three previous
4 years of reported gross revenues of the Company by a factor of two.

5
6 Q. What is the result of the Company's calculation of the property tax pro-
7 forma adjustment?

8 A. The result is a FCV, which will likely allow the Company to over-earn
9 based on its expected property tax expense. Among the goals of ADOR
10 was to arrive at a forward looking valuation formula that would produce
11 predictable values, logical results and minimize the tax impact from the
12 previous year.

13
14 Q. Do you have any evidence RUCO's calculation is more appropriate?

15 A. Yes, I do. The evidence in this case attests to the accuracy of RUCO's
16 calculation. Using ADOR's formula, RUCO's recommended property tax
17 expense for 2005 is \$170,334. By comparison, the Company's proposed
18 2005 property tax expense is \$213,241. The actual property tax assessed
19 by ADOR (excluding MRTF) for 2005 is \$162,193. Thus, the ADOR
20 formula results in a more accurate level of property tax expense than does
21 the Company's "modified" formula.

22 ...

23 ...

1 It is unlikely that the Company will generate revenues consistent with its
2 estimates in the near future. The Company would be over-collecting the
3 property tax expense for quite a few years before the actual assessment
4 would catch up to the Company's 2005 projected revenue. In the
5 meantime, the Company will be recovering its property tax expense based
6 on an inflated revenue projection.

7
8 Q. When will the Company pay the property tax impacted by the changes in
9 revenues approved in this rate case?

10 A. Assuming rates go into effect in mid 2006, it will not be until the end of
11 2007 before the Company will have one full year of operating revenues at
12 the new rates.

13
14 The Company will pay property taxes for the tax-year 2007 semi-annually,
15 the first payment becoming due in October 2007, and the final payment
16 due in March 2008.

17
18 Q. What action is RUCO taking to promote its position and establish
19 acceptance of its recommendation on how to implement the ADOR
20 Formula?

21 A. Since the property tax formula, as prescribed by the ADOR, was in a
22 memo dated January 3, 2001, and requires the use of two historical years
23 of revenue, full ramification of this formula will not take effect until the

1 2005 assessment with that property tax expense final payable due in early
2 2006.

3
4 Therefore, RUCO is continuing to gather evidence on the appropriateness
5 of the ADOR formula to accurately project future property taxes for
6 ratemaking purposes. RUCO asserts the data will further demonstrate
7 that its property tax arguments are correct.

8
9 Q. Please summarize your second adjustment to the property tax expense.

10 A. As shown on Schedule RLM-3, page 4, column (J), line 33, this
11 adjustment increases adjusted test-year expenses by:
12 \$13,937.

13
14 Operating Income Adjustment No. 11 – Normalized Payroll Taxes

15 Q. What adjustments did you make to the Company's FICA, FUTA, and
16 SUTA payroll taxes?

17 A. I adjusted the Company's FICA, FUTA, and SUTA to correspond to
18 RUCO's recommended level of labor.

19
20 As outlined on Schedule RLM-11, I have calculated the payroll taxes using
21 RUCO's adjusted payroll labor expense.

22 ...

23 ...

1 As shown on Schedule RLM-3, page 4, column (K), line 34, this
2 adjustment decreases adjusted test-year expenses by:
3 (\$17,204).

4
5 RUCO Operating Income Adjustment No. 12 – Administration And
6 General Allocated Expenses

7 Q. Please explain your analysis of the Company's administration and general
8 allocated test-year expenses.

9 A After review of the Company's response to RUCO Data Requests 5.09,
10 7.04, 9.01, 9.02, 9.03 and 9.04, I made adjustments to remove certain
11 costs from test-year expenses that RUCO deems inappropriate to recover
12 from these proceedings.

13
14 As shown on Schedule RLM-12, page 1, lines 2, 3 and 4, I made
15 adjustments to the Corporate Office allocated expenses in three accounts
16 – Management Fees, Central Division Miscellaneous and Corporate Office
17 Miscellaneous.

18
19 Q. Please explain your adjustment to the management fees allocated to PV
20 Water.

21 A. Through discovery and the Company's response to RUCO Data Request
22 9.04, I removed all expenses associated with the Annual Incentive Plan
23 and the Long-Term Incentive Plan.

1 Q. Are employees of PV Water awarded bonuses if the Company achieves
2 specific performance objectives?

3 A. Yes. The Company has a bonus award plan, which states no awards are
4 payable unless the Company's meets its financial performance target or if
5 the employee does not meet his/her performance goals.
6

7 Q. Who benefits from the achievement of these performance targets?

8 A. Stockholders are the primary beneficiaries of the achievement of these
9 performance targets. This is particularly true between rate cases.
10

11 Q. Please explain.

12 A. The achievement of the financial performance target clearly benefits
13 stockholders. Any additional profits the Company is able to achieve
14 between rate cases accrues solely to the Company's stockholders.
15 Likewise, the achievement of the employee performance goals benefits
16 stockholders. If the Company is successful in reducing its number of
17 employees while maintaining its customer base, the additional profit will
18 accrue to stockholders between rate cases. Accordingly, since
19 stockholders stand to gain from achievement of the performance targets,
20 stockholders should bear the cost of any employee incentive pay.
21 ...
22 ...
23 ...

1 Q. Do employees who are eligible for incentive pay also receive annual pay
2 increases?

3 A. Yes. Awards made under the Annual Incentive Plan and the Long-Term
4 Incentive Plan are in addition to annual salary increases.

5
6 Q. Is the annual amount of the incentive pay a known and measurable
7 expense?

8 A. No. Because the amount of the total incentive award is contingent on
9 whether or not the Company achieves its financial performance targets the
10 annual amount of the award is not known and measurable. Thus, the
11 amount awarded in the test year is not necessarily representative of, and
12 quite possibly completely unrelated to, the amount that will be incurred in
13 subsequent years.

14
15 Moreover, with the employee performance goals reached and the
16 completion of the downsizing and reorganization projects, presumably
17 there should inherently be efficiencies realized. If I was able to quantify
18 these efficiencies, further reductions in test-year expenses would be highly
19 probable.

20 ...

21 ...

22 ...

23 ...

1 Q. Is there another reason why the test-year incentive pay should not be
2 included in rates?

3 A. Yes. In response to RUCO's Data Request 9.04, the Company
4 acknowledges that it paid out incentive awards in 2004 despite the fact it
5 did not achieve its goals. Ratepayers should not have to pay for bonuses,
6 let alone for those given arbitrarily, despite not having achieved incentive
7 goals.

8
9 Q. Please summarize your adjustment to the management fees allocated to
10 PV Water.

11 A. As shown on Schedule RLM-12, page 1, column (A), line 2, I removed all
12 the test-year costs in the incentive pay account from test-year expenses.
13 This adjustment decreases adjusted test-year expenses by (\$62,478).

14
15 Q. Please explain your adjustment to the Central Division Miscellaneous
16 expenses allocated to PV Water.

17 A. Through discovery and the Company's response to RUCO Data Requests
18 9.01, 9.02 and 9.03, I determined there were test-year expenses that were
19 non-recurring, previously disallowed by the ACC, and/or not required for
20 the provisioning of water service, such as, expenses related to payments
21 to Chambers of Commerce, non-profit organizations, donations, club
22 memberships, gifts, awards, extravagant corporate events and for various
23 meals, lodging and refreshments.

1 Therefore, as shown on RLM-12, pages 5 through 7, I made an
2 adjustment to remove these expenses.

3
4 Q. Please summarize your adjustment to the Central Division Miscellaneous
5 account allocated to PV Water.

6 A. As shown on Schedule RLM-12, page 1, column (A), line 3, I removed
7 inappropriate test-year costs in the Central Division Miscellaneous
8 account from test-year expenses. This adjustment decreases adjusted
9 test-year expenses by (\$1,204).

10
11 Q. Please explain your adjustment to the Corporate Office Miscellaneous
12 account allocated to PV Water.

13 A. Similar to the above adjustment to the Central Division Miscellaneous
14 account, and as shown on RLM-12, pages 8 through 18, I removed
15 inappropriate test-year costs in the Corporate Office Miscellaneous
16 account from test year expenses.

17
18 As shown on Schedule RLM-12, page 1, column (A), line 4, this
19 adjustment decreases adjusted test-year expenses by (\$18,233).

20 ...

21 ...

22 ...

23 ...

1 Q. Please summarize the total adjustment to the allocated administration and
2 general expense.

3 A. As shown on Schedule RLM-3, page 3, column (L), line 22, this
4 adjustment decreases adjusted test-year expenses by:
5 (\$81,915).

6
7 RUCO Operating Income Adjustment No. 13 – Capitalization of Expenses

8 Q. Please discuss the reason you are recommending the capitalization of
9 certain maintenance pumping expenses.

10 A. Through discovery, both the Company and RUCO agree that certain
11 operations and maintenance expenses should have been capitalized.

12
13 As stated in the response to RUCO Data Request 8.05, the Company
14 agreed that three invoices expensed in the instant case meet the criteria
15 to be recorded as capital plant items.

16
17 Therefore, both the Company and RUCO agree to reclassify these
18 expenses in the appropriate utility plant accounts.

19
20 The specific adjustments are shown on Schedule RLM-3, page 4, column
21 (K) to remove the expenses and Schedule TJC-3, column (4), line 13 to
22 capitalize the plant items.

23 ...

1 As shown on Schedule RLM-3, page 3, column (M), line 15, and page 4,
2 column (M), lines 25 and 26, this adjustment decreases adjusted test-year
3 expenses by:
4 (\$10,495).

5
6 RUCO Operating Income Adjustment No. 16 – Income Taxes

7 Q. Please explain your adjustment to income tax expenses.

8 A. This adjustment reflects income tax expenses calculated on RUCO's
9 recommended revenues and expenses.

10
11 As shown on Schedule RLM-3, page 4, column (P), line 35, this
12 adjustment increases adjusted test-year expenses by:
13 \$206,490.

14
15 **ARSENIC COST RECOVERY MECHANISM**

16 Q. Does RUCO support the ACRM?

17 A. Yes, it does. RUCO is in agreement with the ACRM as proposed by the
18 Company, which is patterned after the ACRM authorized for Arizona
19 Water Company – Northern Division in Commission Decision No. 66400,
20 dated October 14, 2003.

21 ...

22 ...

23 ...

1 Q. Does RUCO have any concerns about the ACRM in this proceeding?

2 A. RUCO does not disagree with the Company's request for the ACRM as
3 outlined in Company witness Stephenson's testimony starting on page 14.

4
5 However, RUCO does have several areas of major concern associated
6 with the costs that the Company plans to seek recovery of through the
7 ACRM.

8
9 Q. What are RUCO's concerns?

10 A. After reviewing the Paradise Valley arsenic removal facility project and
11 treatment process, RUCO believes a very thorough audit and analysis will
12 be required before any recovery of the approximately \$20 million in
13 projected costs should be authorized.

14
15 Areas of concern that require scrutiny are:

- 16 1. Review of the tender list and bidding process;
- 17 2. Compare appropriateness of this treatment technology;
- 18 3. Determine actual costs for the specific mandated arsenic removal
19 at a site that is oversized and has multiple uses;
- 20 4. Analyze the used and usefulness of the additional storage and
21 pumping capacity in the arsenic removal process; and
- 22 5. Examine the possibility the treatment facility is capable of treating
23 water in excess of just arsenic removal.

1 Q. Given these concerns, do you believe the timeline as proposed by the
2 Company is realistic?

3 A. No. In August 2006, the Company anticipates making an ACRM filing for
4 the recovery of capital costs for arsenic treatment facilities completed and
5 placed into service by July 2006.

6
7 Furthermore, the Company expects parties to review the filing prior to an
8 Open Meeting in September 2006 with the Commission approving the
9 surcharge for PV Water customers effective on customers' bills in October
10 2006.

11
12 Considering the complexity and magnitude of the costs of PV Water's
13 arsenic project, it seems highly unlikely a sufficient analysis could be
14 completed in time for an Opening Meeting in September 2006.

15
16 Q. Does this conclude your direct testimony?

17 A. Yes, it does.

APPENDIX 1

APPENDIX 1

Qualifications of Rodney Lane Moore

EDUCATION: Athabasca University
Bachelor's Degree in Business Administration - 1993

EXPERIENCE: Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona 85007
May 2001 - Present

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

Auditor
Arizona Corporation Commission
Phoenix, Arizona 85007
October 1999 - May 2001

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>
Rio Verde Utilities, Inc	WS-02156A-00-0321
Black Mountain Gas Company	G-03703A-01-0283
Green Valley Water Company	W-02025A-01-0559
New River Utility Company	W-01737A-01-0662

Dragoon Water Company	W-01917A-01-0851
Roosevelt Lake Resort, Inc.	W-01958A-02-0283
Southwest Gas Company	G-01551A-02-0425
Arizona-American Water Company	W-01303A-02-0867 et al
Rio Rico Utilities, Inc.	WS-02676A-03-0434
Qwest Corporation	T-01051B-03-0454
Chaparral City Water Company	W-02113A-04-0616
Southwest Gas Company	G-01551A-04-0876

TABLE OF CONTENTS TO RLM SCHEDULES

SCH. NO.	PAGE NO.	TITLE
RLM-1	1 & 2	REVENUE REQUIREMENT
RLM-2	1	OPERATING INCOME
RLM-3	1 TO 4	SUMMARY OF OPERATING INCOME ADJUSTMENTS
	TESTIMONY	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 1 - RECLASSIFIED OFFICE LEASE
RLM-4	1	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2 - NORMALIZED GROUP INSURANCE
RLM-5	1	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3 - NORMALIZED OPEB EXPENSES
	TESTIMONY	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 4 - RATE CASE EXPENSE
RLM-6	1	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5 - PENSION EXPENSES
	TESTIMONY	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 6 - MATERIALS & SUPPLIES WRITE-OFF
RLM-7	1	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7 - NORMALIZED PAYROLL
RLM-8	1 TO 3	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8 - TEST YEAR DEPRECIATION EXPENSE
RLM-9	1	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 9 - PROPERTY TAX COMPUTATION - ADJ. # 1
RLM-10	1	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 10- PROPERTY TAX COMPUTATION - ADJ. # 2
RLM-11	1	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 11- NORMALIZED PAYROLL TAXES
RLM-12	1 TO 18	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 12- ADMIN. & GEN. CORPORATE ALLOCATION
	TESTIMONY	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 13- CAPITALIZED O & M EXPENSES
		ADJUSTMENT NO. 14 - LEFT BLANK
		ADJUSTMENT NO. 15 - LEFT BLANK
RLM-13	1	EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 16 - INCOME TAX EXPENSE

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY OCRB/FVRB AS FILED	(B) RUCO OCRB/FVRB AS ADJUSTED
1	Adjusted Rate Base	\$ 11,651,216	\$ 10,898,953
2	Adjusted Operating Income (Loss)	\$ 742,769	\$ 1,045,440
3	Current Rate Of Return (Line 2 / Line 1)	6.38%	9.59%
4	Required Operating Income (Line 5 X Line 1)	\$ 913,455	\$ 773,826
5	Required Rate Of Return	7.84%	7.10%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 170,686	\$ (271,615)
7	Gross Revenue Conversion Factor (Schedule RLM-1, Page 2)	1.6286	1.6286
8	Increase In Gross Revenue Requirement (Line 7 X Line 6)	\$ 277,980	\$ (442,361)
9	Adjusted Test Year Revenue	\$ 5,070,680	\$ 5,070,680
10	Proposed Annual Revenue Requirement (Line 8 + Line 9)	\$ 5,348,660	\$ 4,628,319
11	Required Percentage Increase In Revenue (Line 8 / Line 9)	5.48%	-8.72%
12	Rate Of Return On Common Equity	12.00%	10.00%

References:

Column (A): Company Schedule A-1, C-1 And D-1
Column (B): Schedules TJC-3, RLM-1 (Page 2), RLM-2 And WAR-1

REVENUE REQUIREMENT - CONT'D
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	REFERENCE	(A)
	CALCULATION OF GROSS REVENUE CONVERSION FACTOR:		
1	Revenue		1.0000
2	Less: Uncollectibles	Company Schedule C-3, Line 3	-
3	Subtotal	Line 1 - Line 2	1.0000
4	Less: Combined Federal And State Tax Rate	NOTE A, Line 14	0.3860
5	Subtotal	Line 3 - Line 4	0.6140
6	RUCO Adjustment (See RLM-1, Page 1, Column (B), Line 7)	Line 1 / Line 5	1.6286

NOTE A

	CALCULATION OF EFFECTIVE TAX RATE:		
7	Arizona Taxable Income		100.00%
8	Arizona State Income Tax Rate		6.97%
9	Federal Taxable Income	Line 7 - Line 8	93.03%
10	Applicable Federal Income Tax Rate		34.00%
11	Effective Federal Income Tax Rate	Line 9 X Line 10	31.63%
12	Subtotal	Line 8 + Line 11	38.60%
13	Revenue Less Uncollectibles	Line 3	100.00%
14	Combined Federal And State Income Tax Rate	Line 12 X Line 13	38.60%

SUMMARY OF OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJUSTMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO AS RECOMMENDED
OPERATING REVENUES:						
1	Residential	\$ 3,868,204	\$ -	\$ 3,868,204	\$ -	\$ 3,868,204
2	Commercial	928,050	-	928,050	-	928,050
3	Turf	76,712	-	76,712	-	76,712
4	Turf - Country Club	166,994	-	166,994	-	166,994
5	Miscellaneous	925	-	925	-	925
6	Sales For Resales	13,270	-	13,270	-	13,270
7	Fire Service	4,439	-	4,439	-	4,439
8	Other	12,468	-	12,468	-	12,468
9	Motorola	-	-	-	-	-
	Unbilled Adjustment					
10	Residential	-	-	-	-	-
11	Commercial	-	-	-	-	-
12	Total Water Sales	5,071,062	-	5,071,062	(442,361)	4,628,701
13	Difference To G/L	(382)	-	(382)	-	(382)
14	TOTAL OPERATING REV.	\$ 5,070,680	\$ -	\$ 5,070,680	\$ (442,361)	\$ 4,628,319
OPERATING EXPENSES:						
Operations						
15	Source Of Supply	\$ 67,292	\$ (1,847)	\$ 65,445	\$ -	\$ 65,445
16	Purchased Power	812,312	-	812,312	-	812,312
17	Pumping Expense	4,416	-	4,416	-	4,416
18	Chemicals	16,499	-	16,499	-	16,499
19	Water Treatment	6,914	-	6,914	-	6,914
20	Transmission & Distribution	74,437	(32,389)	42,048	-	42,048
21	Customer Accounting	62,854	-	62,854	-	62,854
22	Administrative & General	1,378,856	(204,438)	1,174,418	-	1,174,418
23	Operations Labor	403,162	(92,863)	310,299	-	310,299
24	Total Operations Exp.	\$ 2,826,742	\$ (331,537)	\$ 2,495,205	\$ -	\$ 2,495,205
Maintenance						
25	Source Of Supply	\$ 14,552	\$ (2,350)	\$ 12,202	\$ -	\$ 12,202
26	Pumping	16,309	(6,298)	10,011	-	10,011
27	Water Treatment	(1,277)	-	(1,277)	-	(1,277)
28	Transmission & Distribution	118,506	(2,090)	116,416	-	116,416
29	Administrative & General	784	-	784	-	784
30	Maintenance Labor	148,056	(34,101)	113,955	-	113,955
31	Total Maintenance Exp.	\$ 296,930	\$ (44,839)	\$ 252,091	\$ -	\$ 252,091
32	DEPR. & AMORT. EXPENSES	\$ 720,578	\$ (72,676)	\$ 647,902	\$ -	\$ 647,902
TAXES						
33	Property Taxes	\$ 213,241	\$ (42,907)	\$ 170,334	\$ -	\$ 170,334
34	Payroll & Miscellaneous	54,716	(17,204)	37,512	-	37,512
35	State & Federal Income	215,705	206,490	422,195	(170,746)	251,449
36	Total Taxes	\$ 483,662	\$ 146,379	\$ 630,041	\$ (170,746)	\$ 459,295
37	TOTAL OPERATING EXP.	\$ 4,327,912	\$ (302,672)	\$ 4,025,240	\$ (170,746)	\$ 3,854,493
38	OPERATING INCOME (LOSS)	\$ 742,768		\$ 1,045,440		\$ 773,826

References:

Column (A): Company Schedules C-1 And E-6
Column (B): Testimony, RLM And Schedule RLM-3, Pages 1 Thru 4
Column (C): Column (A) + Column (B)
Column (D): Testimony, RLM And Schedule RLM-1, Page 1
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	DESCRIPTION	COMPANY AS FILED	(A) ADJ #1	(B) ADJ #2	(C) ADJ #3	(D) ADJ #4	(E) ADJ #5	(F) ADJ #6	(G) ADJ #7	(H) ADJ #8
OPERATING REVENUES:										
1	Residential	\$ 3,868,204	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Commercial	928,050	-	-	-	-	-	-	-	-
3	Turf	76,712	-	-	-	-	-	-	-	-
4	Turf - Country Club	166,994	-	-	-	-	-	-	-	-
5	Miscellaneous	925	-	-	-	-	-	-	-	-
6	Sales For Resales	13,270	-	-	-	-	-	-	-	-
7	Fire Service	4,439	-	-	-	-	-	-	-	-
8	Other	12,468	-	-	-	-	-	-	-	-
9	Motorola	-	-	-	-	-	-	-	-	-
	Unbilled Adjustment	-	-	-	-	-	-	-	-	-
10	Residential	-	-	-	-	-	-	-	-	-
11	Commercial	-	-	-	-	-	-	-	-	-
12	Total Water Sales	5,071,062	-	-	-	-	-	-	-	-
13	Difference To G/L	(382)	-	-	-	-	-	-	-	-
14	TOTAL OPERATING REV.	\$ 5,070,680	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
OPERATING EXPENSES:										
Operations										
15	Source Of Supply	\$ 67,292	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16	Purchased Power	812,312	-	-	-	-	-	-	-	-
17	Pumping Expense	4,416	-	-	-	-	-	-	-	-
18	Chemicals	16,499	-	-	-	-	-	-	-	-
19	Water Treatment	6,914	-	-	-	-	-	-	-	-
20	Transmission & Distribution	74,437	-	-	-	-	-	-	(32,389)	-
21	Customer Accounting	62,854	-	-	-	-	-	-	-	-
22	Administrative & General	1,378,856	(14,593)	(2,972)	(2,093)	(79,644)	(12,037)	(11,184)	-	-
23	Operations Labor	403,162	-	-	-	-	-	-	(92,863)	-
24	Total Operations Exp.	\$ 2,826,742	\$ (14,593)	\$ (2,972)	\$ (2,093)	\$ (79,644)	\$ (12,037)	\$ (11,184)	\$ (125,252)	\$ -

ADJUSTMENT NO.	REFERENCE	ADJUSTMENT NO.	REFERENCE
1 - Reclassified Office Lease	Testimony, RLM	5 - Pension Expense	Testimony, RLM And Schedule RLM-6
2 - Normalized Group Insurance	Testimony, RLM And Schedule RLM-4	6 - Write-Off Mat. & Supplies	Testimony, RLM
3 - OPEB Expense	Testimony, RLM And Schedule RLM-5	7 - Normalized Labor	Testimony, RLM And Schedule RLM-7
4 - Rate Case Expense	Testimony, RLM	8 - Depreciation Expense	Testimony, RLM And Schedule RLM-8

SUMMARY OF OPERATING INCOME ADJUSTMENTS - CONT'D
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	DESCRIPTION	COMPANY AS FILED	(A) ADJ #1	(B) ADJ #2	(C) ADJ #3	(D) ADJ #4	(E) ADJ #5	(F) ADJ #6	(G) ADJ #7	(H) ADJ #8
	Maintenance									
25	Source Of Supply	\$ 14,552	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
26	Pumping	16,309	-	-	-	-	-	-	-	-
27	Water Treatment	(1,277)	-	-	-	-	-	-	-	-
28	Transmission & Distribution	118,506	-	-	-	-	-	-	(2,090)	-
29	Administrative & General	784	-	-	-	-	-	-	-	-
30	Maintenance Labor	148,056	-	-	-	-	-	-	(34,101)	-
31	Total Maintenance Exp.	\$ 296,930	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (36,191)	\$ -
32	DEPR. & AMORT. EXPENSES	\$ 720,578	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (72,676)
	TAXES									
33	Property Taxes	\$ 213,241	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
34	Payroll & Miscellaneous	54,716	-	-	-	-	-	-	-	-
35	State & Federal Income	215,705	-	-	-	-	-	-	-	-
36	Total Taxes	\$ 483,662	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
37	TOTAL OPERATING EXP.	\$ 4,327,912	\$ (14,593)	\$ (2,972)	\$ (2,093)	\$ (79,644)	\$ (12,037)	\$ (11,184)	\$ (161,443)	\$ (72,676)
38	OPERATING INCOME (LOSS)	\$ 742,768								

ADJUSTMENT NO.

- 1 - Reclassified Office Lease
- 2 - Normalized Group Insurance
- 3 - OPEB Expense
- 4 - Rate Case Expense
- 5 - Pension Expense
- 6 - Write-Off Mat. & Supplies
- 7 - Normalized Labor
- 8 - Depreciation Expense

REFERENCE

- Testimony, RLM
- Testimony, RLM And Schedule RLM-4
- Testimony, RLM And Schedule RLM-5
- Testimony, RLM
- Testimony, RLM And Schedule RLM-6
- Testimony, RLM
- Testimony, RLM And Schedule RLM-7
- Testimony, RLM And Schedule RLM-8

SUMMARY OF OPERATING INCOME ADJUSTMENTS - CONT'D
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	DESCRIPTION	(I) ADJ #9	(J) ADJ #10	(K) ADJ #11	(L) ADJ #12	(M) ADJ #13	(N) ADJ #14	(O) ADJ #15	(P) ADJ #16	(Q) RUCO AS ADJTD
OPERATING REVENUES:										
1	Residential	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,868,204
2	Commercial	-	-	-	-	-	-	-	-	928,050
3	Turf	-	-	-	-	-	-	-	-	76,712
4	Turf - Country Club	-	-	-	-	-	-	-	-	166,994
5	Miscellaneous	-	-	-	-	-	-	-	-	925
6	Sales For Resales	-	-	-	-	-	-	-	-	13,270
7	Fire Service	-	-	-	-	-	-	-	-	4,439
8	Other	-	-	-	-	-	-	-	-	12,468
9	Motorola	-	-	-	-	-	-	-	-	-
	Unbilled Adjustment	-	-	-	-	-	-	-	-	-
10	Residential	-	-	-	-	-	-	-	-	-
11	Commercial	-	-	-	-	-	-	-	-	-
12	Total Water Sales	-	-	-	-	-	-	-	-	5,071,062
13	Difference To G/L	-	-	-	-	-	-	-	-	(382)
14	TOTAL OPERATING REV.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,070,680
OPERATING EXPENSES:										
Operations										
15	Source Of Supply	\$ -	\$ -	\$ -	\$ -	\$ (1,847)	\$ -	\$ -	\$ -	\$ 65,445
16	Purchased Power	-	-	-	-	-	-	-	-	812,312
17	Pumping Expense	-	-	-	-	-	-	-	-	4,416
18	Chemicals	-	-	-	-	-	-	-	-	16,499
19	Water Treatment	-	-	-	-	-	-	-	-	6,914
20	Transmission & Distribution	-	-	-	-	-	-	-	-	42,048
21	Customer Accounting	-	-	-	-	-	-	-	-	62,854
22	Administrative & General	-	-	-	(81,915)	-	-	-	-	1,174,418
23	Operations Labor	-	-	-	-	-	-	-	-	310,299
24	Total Operations Exp.	\$ -	\$ -	\$ -	\$ (81,915)	\$ (1,847)	\$ -	\$ -	\$ -	\$ 2,495,205
ADJUSTMENT NO.										
		REFERENCE					ADJUSTMENT NO.		REFERENCE	
9 - Property Tax - Adjustment No. 1		Testimony, RLM And Schedule RLM-9					13 - Capitalization Of Expenses		Testimony, RLM	
10 - Property Tax - Adjustment No. 2		Testimony, RLM And Schedule RLM-10					14 - Left Blank			
11 - Payroll Taxes		Testimony, RLM And Schedule RLM-11					15 - Left Blank			
12 - Admin. & Gen. Corporate Allocation		Testimony, RLM And Schedule RLM-12					16 - Income Tax		Testimony, RLM And Schedule RLM-13	

SUMMARY OF OPERATING INCOME ADJUSTMENTS - CONT'D
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	DESCRIPTION	(I) ADJ #9	(J) ADJ #10	(K) ADJ #11	(L) ADJ #12	(M) ADJ #13	(N) ADJ #14	(O) ADJ #15	(P) ADJ #16	(Q) RUCO AS ADJ'D
	Maintenance									
25	Source Of Supply	\$ -	\$ -	\$ -	\$ -	\$ (2,350)	\$ -	\$ -	\$ -	\$ 12,202
26	Pumping	-	-	-	-	(6,298)	-	-	-	10,011
27	Water Treatment	-	-	-	-	-	-	-	-	(1,277)
28	Transmission & Distribution	-	-	-	-	-	-	-	-	116,416
29	Administrative & General	-	-	-	-	-	-	-	-	784
30	Maintenance Labor	-	-	-	-	-	-	-	-	113,955
31	Total Maintenance Exp.	\$ -	\$ -	\$ -	\$ -	\$ (8,648)	\$ -	\$ -	\$ -	\$ 252,091
32	DEPR. & AMORT. EXPENSES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 647,902
	TAXES									
33	Property Taxes	\$ (56,844)	\$ 13,937	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 170,334
34	Payroll & Miscellaneous	-	-	(17,204)	-	-	-	-	-	37,512
35	State & Federal Income	-	-	-	-	-	-	-	206,490	422,195
36	Total Taxes	\$ (56,844)	\$ 13,937	\$ (17,204)	\$ -	\$ -	\$ -	\$ -	\$ 206,490	\$ 630,041
37	TOTAL OPERATING EXP.	\$ (56,844)	\$ 13,937	\$ (17,204)	\$ (81,915)	\$ (10,495)	\$ -	\$ -	\$ 206,490	\$ 4,025,240
38	OPERATING INCOME (LOSS)									\$ 1,045,440

ADJUSTMENT NO.

- 9 - Property Tax - Adjustment No. 1
- 10 - Property Tax - Adjustment No. 2
- 11 - Payroll Taxes
- 12 - Admin. & Gen. Corporate Allocation
- 13 - Capitalization Of Expenses
- 14 - Left Blank
- 15 - Left Blank
- 16 - Income Tax

REFERENCE

- Testimony, RLM And Schedule RLM-9
- Testimony, RLM And Schedule RLM-10
- Testimony, RLM And Schedule RLM-11
- Testimony, RLM And Schedule RLM-12
- Testimony, RLM

- Testimony, RLM And Schedule RLM-13

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 2
NORMALIZATION OF GROUP INSURANCE**

LINE NO.	DESCRIPTION	REFERENCE	(A)
1	Group Insurance Costs	WP RLM-4, Page 2, Column (F), Line 27	\$ 128,044
2	Employee Contributions	WP RLM-4, Page 8, Column (F), Line 49	(6,105)
3	Total RUCO Adjusted Group Insurance Costs	Line 1 + Line 2	<u>\$ 121,939</u>
	Less:		
	Capitalized Portion		
4	RUCO Adjusted Capital Labor (Excluding MRTF)	RLM-7, Page 1, Line 2	\$ (45,377)
5	RUCO Adjusted Total Labor (Excluding MRTF)	RLM-7, Page 1, Line 3	<u>424,255</u>
6	Percentage Of Capitalized Labor	Line 4 / Line 5	-10.70%
7		Line 3 X Capital Labor Of 10.70%	(13,042)
8	RUCO Adjusted Group Insurance Expense	Line 3 + Line 6	<u>\$ 108,897</u>
9	Company Group Insurance Expense As Filed	Company Workpapers	111,869
10	RUCO Adjustment (See RLM-3, Page 1, Column (B), Line 22)	Line 7 - Line 8	<u>\$ (2,972)</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 3
OPEB EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A)
1	Normalized OPEB Expense	Company Response To RUCO Data Request 8.04	\$ 67,595
	Less		
	Capitalized Portion		
2	Normalized Capital Labor	RLM-7, Page 1, Line 2	
3	Normalized Total Labor	RLM-7, Page 1, Line 3	
4	Percentage Capital Labor Is Of Total Labor	Line 2 / Line 3	
5		Line 1 X Capital Labor Of 10.70%	(7,230)
6	Amortization Of Deferred Expense	Company Response To RUCO Data Request 5.04	25,404
7	RUCO Adjusted OPEB Expense	Sum of Lines 1, 5 & 6	<u>\$ 85,769</u>
8	Company OPEB Expense As Filed	Company Response To RUCO Data Request 8.04	\$ 87,862
9	RUCO Adjustment (See RLM-3, Page 1, Column (C), Line 22)	Line 7 - Line 8	<u>\$ (2,093)</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 5
PENSION EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A)
1	Projected AZ-AM 2005 Pension Funding Expense	Company Workpapers	\$ 296,624
2	Active Pension Participants	Company Response To RUCO Data Request 5.05	136
3	Projected AZ-AM 2005 Pension Funding Expense Per Participant	Line 1 / Line 2	<u>\$ 2,181</u>
4	Number Of Full-Time Equivalent Employees Working At Paradise Valley	WP RLM-4, Pg 6, Col. (D), L 43 - L 47 - L 52	11.16
5	Projected Paradise Valley 2005 Pension Funding Expense	Line 3 X Line 4	<u>\$ 24,338</u>
	Less		
	Capitalized Portion		
6	Normalized Capital Labor	\$ (45,377)	RLM-7, Page 1, Line 2
7	Normalized Total Labor	<u>\$424,255</u>	RLM-7, Page 1, Line 3
8	Percentage Capital Labor Is Of Total Labor	-10.70%	Line 6 / Line 7
9		Line 5 X Capital Labor Of 10.70%	(2,603)
10	RUCO Projected Paradise Valley 2005 Pension Funding Expense	Line 5 + Line 9	<u>\$ 21,735</u>
11	Company Pension Expense As Filed	Company Workpapers	\$ 33,772
12	RUCO Adjustment (See RLM-3, Page 1, Column (E), Line 22)	Line 10 - Line 11	<u>\$ (12,037)</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 7
NORMALIZATION OF LABOR - PROJECTED HOURS AND WAGES**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJ'TED
1	Total Payroll - Regular & Overtime (Excluding MRTF) - As Adjusted By RUCO	WP RLM-7, Page 3, Col (E), Line 49	\$ 469,632
2	Normalized Total Capitalized Wages - As Calculated By Company	2004 G/L Actuals Plus 3.5% Increase	(45,377)
3	Total Normalized Payroll Expense (Excluding MRTF)	Line 1 + Line 2	<u>\$ 424,255</u>
	Allocation Of Normalized Payroll Expense - As Calculated By Company		
4	Operations Labor @ 73.14%	3 Year Average	\$ 310,300
5	Maintenance Labor @ 26.86%	3 Year Average	113,955
6	Total Normalized Payroll Expense (Excluding MRTF) - As Adjusted By RUCO	Line 4 + Line 5	<u>\$ 424,255</u>
	Normalized Payroll Expense (Excluding MRTF) As Filed By Company		
7	Operations Labor	Company Workpapers	\$ 403,163
8	Maintenance Labor	Company Workpapers	148,056
9	Total Normalized Payroll Expense (Excluding MRTF) As Filed By Company	Line 7 + Line 8	<u>\$ 551,219</u>
	Payroll Adjustments		
10	RUCO Adjustment To Operations Labor (See RLM-3, Pg 1, Col. (G), L 23)	Line 4 - Line 7	<u>\$ (92,863)</u>
11	RUCO Adjustment To Maintenance Labor (See RLM-3, Pg 2, Col. (G), Line 30)	Line 5 - Line 8	<u>(34,101)</u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8
TEST YEAR DEPRECIATION EXPENSE**

LINE NO.	DESCRIPTION	REFERENCE	(A) RUCO AS ADJ'ED
1	Depreciation Expense On RUCO Adjusted Test Year Total Plant	RLM-8, Page 2, Column (D), Line 47	\$ 1,210,302
2	Amortization Of CIAC	Company Workpapers	(525,004)
3	Amortization Of CPS	Company Workpapers	32,634
4	Amortization Of Mummy Mountain Acquisition	NOTE A	5,256
6	Amortization Of Ratepayers Portion Of "Gain On Sale Of Land"	NOTE B	(78,450)
7	Depreciation Expense On Western Division Corporate District Allocation	RLM-8, Page 3, Column (D), Line 63	3,165
8	RUCO Adjusted Test Year Depreciation Expense	Sum Of Lines 1 Thru 7	<u>\$ 647,903</u>
9	Company Depreciation Expense On Test Year Total Plant As Filed	Company Schedule C-1	720,578
10	RUCO Adjustment (See RLM-3, Page 2, Column (H), Line 32)	Line 8 - Line 9	<u>\$ (72,676)</u>

NOTE A

Amortization Of Mummy Mountain Acquisition

11	Authorized Mummy Mountain Acquisition Adjustment	Co. Response To RUCO D. R. 2.01	\$ 131,400
12	Authorized Amortization Period	Decision No. 61307, Page 6, Line 18	25 Years
13	Annual Expense For Mummy Mountain Acquisition Adjustment	Line 11 / 25 Years	<u>\$ 5,256</u>

NOTE B

Amortization Of Ratepayers Portion Of "Gain On Sale Of Land"

14	Total Pre-Tax Gain On Sale Of Land	Testimony - Stephenson, Page 36, Line 6	\$ 784,496
15	Ratepayers Portion Of Gain Is A 50-50 Split	Testimony - Stephenson, Page 36, Line 13	(392,248)
16	Amortization Period	Testimony - Stephenson, Page 36, Line 16	5 Years
17	Annual Expense For Ratepayers Portion Of "Gain On Sale Of Land"	Line 15 / 5 Years	<u>\$ (78,450)</u>

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8 - CONT'D
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) ALLOCATION FACTOR	(B) TOTAL PLANT VALUE	(C) APR'D DEP. RATE	(D) TEST YEAR DEPRECIATION EXPENSE
Paradise Valley Direct Plant						
1	303.99	Miscellaneous Intangible Plant Studies		\$ -	0.00%	\$ -
2	103000	Property Held For Future Use		-	0.00%	-
3	307000	Wells & Springs		-	0.00%	-
4	311200	Pumping Equipment - Electric		-	0.00%	-
5	311200	Pumping Equipment - Electric		-	0.00%	-
6	301000	Organization		15,350	0.00%	-
7	303200	Reservoir Land		-	0.00%	-
8	303300	Pumping Land & Land Rights		-	0.00%	-
9	303400	WT Land & Land Rights		-	0.00%	-
10	303500	Dist. Res. & Standpipe Land		8,324	0.00%	-
11	303600	Office Land		-	0.00%	-
12	304100	SS Structures & Improvements		7,953	14.59%	1,160
13	304200	Pumping Structures & Improvements		79,626	3.99%	3,177
14	304300	WT Structures & Improvements		3,038,848	2.00%	60,777
15	304400	Grit Removal Equipment		23,864	1.50%	358
16	304500	Structures & Improvements AG		15,173	4.63%	702
17	304610	Heating & Air Conditioning		-	0.00%	-
18	304700	Stores Shop & Garage Structures		93,285	4.63%	4,319
19	304800	Structures & Improvements Misc		149,284	4.63%	6,912
20	307000	Wells & Springs		1,252,563	2.48%	31,064
21	311200	Electric Pumping Equipment		3,337,081	4.39%	146,498
22	311300	Diesel Pumping Equipment		59,421	4.39%	2,609
23	320100	Water Treatment Equipment		5,825,149	7.06%	411,256
24	330001	Dist. Reservoirs & Standpipes		912,619	3.15%	28,747
25	331100	T & D Mains - 4" & Less		706,252	4.17%	29,451
26	331200	T & D Mains - 6" - 8"		3,974,977	2.52%	100,169
27	331300	T & D Mains - 10" or More		5,485,424	2.34%	128,359
28	333000	Services		2,178,858	4.72%	102,842
29	334100	Meters		328,580	7.21%	23,691
30	334200	Meter Installations		103,799	1.51%	1,567
31	335000	Hydrants		746,904	2.10%	15,685
32	339000	Other T & D Plant		-	0.00%	-
33	339600	Other P/E CPS		-	0.00%	-
34	340100	Office Furniture		43,931	4.04%	1,775
35	340200	Computers & Peripherals		98,019	15.89%	15,575
36	340300	Computer Software		134,174	37.71%	50,597
37	340500	Other Office Equipment		25,224	7.13%	1,798
38	341100	Transportation Equip - Light Trucks		2,882	28.05%	808
39	341300	Transportation Equip - Automobiles		19,307	7.80%	1,506
40	341400	Transportation Equipment - Other		13,606	0.93%	127
41	343000	Tools Shop & Garage Equipment		83,291	3.61%	3,007
42	345000	Power Operated Equipment		147,067	4.64%	6,824
43	346001	Communication Equipment		-	9.76%	-
44	346100	Communication Equip - Non-Telephone		284,556	7.91%	22,508
45	346300	Communication Equipment - Other		81,331	7.91%	6,433
46	347000	Miscellaneous Equipment		-	0.00%	-
47	Total Paradise Valley Direct Plant			<u>\$ 29,276,721</u>		<u>\$ 1,210,302</u>

Continued On Following Page

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 8 - CONT'D
TEST YEAR DEPRECIATION EXPENSE

LINE NO.	ACCT. NO.	ACCOUNT NAME	(A) ALLOCATION FACTOR	(B) TOTAL PLANT VALUE	(C) APR'D DEP. RATE	(D) TEST YEAR DEPREC'N EXPENSE
Corporate Division						
48	304510	Structures & Improvements AG Cap Lease		\$ 197,755	5.63%	\$ 11,134
49	340100	Office Furniture		784,162	4.04%	31,680
50	340200	Computers & Peripherals		47,741	15.89%	7,586
51	340300	Computer Software		1,200,856	37.71%	452,843
52	346100	Communication Equipment - Non-Telephone		236,879	9.76%	23,119
53	346300	Communication Equipment - Other		4,902	7.91%	388
54	Total Corporate Division			<u>\$ 2,472,295</u>		<u>\$ 526,750</u>
55	Service Company Allocation			\$ 1,236,295		
56	AZ-AM Allocation			1,718,418		
57	Paradise Valley District Allocation		0.0360627	<u>61,971</u>		
Central Division Corporate District						
58	304600	Structure & Improvement Offices		\$ 7	4.63%	\$ 0
59	340100	Office Furniture		734	4.04%	30
60	341100	Transportation Equipment - Light Trucks		270,855	28.05%	75,975
61	343000	Tools Shop & Garage Equipment		13,918	3.61%	502
62	Total Central Division Corporate District			<u>\$ 285,514</u>		<u>\$ 76,507</u>
63	Paradise Valley District Allocation		0.0413664	<u>\$ 11,811</u>		<u>\$ 3,165</u>
Western Division Corporate District						
64	303600	Land & Land Rights AG		\$ 30,722	0.00%	\$ -
65	340300	Computer Software		833	37.71%	314
66	346200	Communication Equip - Telephone		49,678	9.76%	4,849
67	346300	Communication Equipment - Other		7,985	7.91%	632
68	Total Western Division Corporate District			\$ 89,218		\$ 5,794
69	Paradise Valley District Allocation		-	<u>\$ -</u>		<u>\$ -</u>
70	RUCO Adjusted Paradise Valley District Depreciation Expense					<u>\$ 1,213,467</u>

References:

Columns (A) & (C): Company Workpapers
Column (B): TJC-3
Column (D): Column (B) X Column (C)

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 9
PROPERTY TAX COMPUTATION - Adjustment No. 1

LINE NO.	DESCRIPTION	REFERENCE	(A)
1	Company's Total Property Tax Liability	Company Workpapers	\$ 213,241
2	Exclude Miller Road Treatment Facility Property Tax: MRTF Recorded 2004 Property Tax	Co. Response To RUCO 4.01	\$ (56,844)
3	Company's Total Property Tax Liability (Excluding MRTF)	Line 1 + Line 2	<u>\$ 156,397</u>
4	Increase (Decrease) In Property Tax Expense	Line 3 - Line 1	\$ (56,844)
5	RUCO Adjustment (See RLM-3, Page 4, Column (I), Line 33)	Line 4	<u><u>\$ (56,844)</u></u>

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 9
PROPERTY TAX COMPUTATION - Adjustment No. 2**

LINE NO.	DESCRIPTION	REFERENCE	(A)	(B)
Calculation Of The Company's Full Cash Value:				
Annual Operating Revenues:				
1	Year 2002 (Company Schedule E-6)	Co. Sch. E-6	\$ 5,680,804	
2	Year 2003 (Company Schedule E-6)	Co. Sch. E-6	5,815,830	
3	Year 2004 (Company Schedule E-6)	Co. Sch. E-6	5,422,284	
4	Total Three Year Operating Revenues	Sum Of Lines 1, 2 & 3	\$ 16,918,918	
5	Average Annual Operating Revenues	Line 4 / 3	5,639,639	
6	Two Times Three Year Average Operating Revenues	Line 5 X 2		\$ 11,279,279
ADD:				
10% Of Construction Work In Progress ("CWIP"):				
7	Test Year CWIP	Co. Sch. B-2, Col. (b), L 3	\$ -	
8	10% Of CWIP	Line 7 X 10%		\$ -
SUBTRACT:				
Transportation At Book Value:				
9	Original Cost Of Transportation Equipment	Company Worpapers	\$ (22,189)	
10	Acc. Dep. Of Transportation Equipment	Company Worpapers	\$ 2,315	
11	Book Value Of Transportation Equipment	Line 9 + Line 10		\$ (19,874)
12	Company's Full Cash Value ("FCV")	Sum Of Lines 6, 8 & 11		\$ 11,259,405
Calculation Of The Company's Tax Liability:				
MULTIPLY:				
FCV X Valuation Assessment Ratio X Property Tax Rates:				
13	Assessment Ratio	House Bill 2779	24.5%	
14	Assessed Value	Line 12 X Line 13	\$ 2,758,554	
Property Tax Rates:				
15	Primary Tax Rate - 2004 Tax Notice	Company Workpapers	8.24%	
16	Secondary Tax Rate - 2004 Tax Notice	Company Workpapers	0.00%	
17	Estimated Tax Rate Liability	Line 15 + Line 16	8.24%	
18	Company's Total Tax Liability - Based On Full Cash Value	Line 14 X Line 17		\$ 227,178
19	Test Year Adjusted Property Tax Expense As Filing	Co. Sch. C-1		213,241
20	Increase (Decrease) In Property Tax Expense	Line 18 - Line 19		\$ 13,937
21	RUCO Adjustment (See RLM-3, Pg 4, Col. (J), Line 33)	Line 20		\$ 13,937

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 10
NORMALIZATION OF PAYROLL TAXES**

LINE NO.	DESCRIPTION	REFERENCE	(A)
1	RUCO Adjusted Payroll Expense	RLM-3, Col. (Q), (Pg 3, L 23) + (Pg 4, L 30)	\$ 424,254
2	RUCO Adjusted Normalized FICA-1 @ 6.20% (Max. \$90,000)	Line 1 X 6.30%	\$26,304
3	RUCO Adjusted Normalized FICA-2 @ 1.45%	Line 1 X 1.45%	\$6,152
4	RUCO Adjusted Normalized FUTA @ 0.80%	NOTE A	\$ 1,746
5	RUCO Adjusted Normalized SUTA @ 1.45%	NOTE B	\$ 3,165
6	Total	Sum Of Lines 2, 3, 4 & 5	\$37,367
7	Payroll Taxes As Filed By Company	Company Workpapers	54,571
8	RUCO Adjustment (See RLM-3, Page 4, Column (K), Line33)	Line 5 + Line 6	<u><u>(\$17,204)</u></u>

NOTE A

Calculation Of RUCO Adjusted Normalized FUTA @ 0.80%

9	RUCO Adjusted No. Of Paradise Valley Employees Earning Over \$7,000	WP RLM-4, Pg 5, Col. (E) @ 31	
10	RUCO Adjusted Normalized FUTA @ 0.80%	31 X \$7,000 X 0.80%	\$ 1,736
11	RUCO Adjusted Total Annual Wages For Employees Earning Under \$7,000	WP RLM-4, Pg 5, Col. (E) @ \$1,276	
12	RUCO Adjusted Normalized FUTA @ 0.80%	\$1,276 X 0.80%	10
13	Total RUCO Adjusted Normalized FUTA @ 0.80%	Line 10 + Line 12	<u><u>\$ 1,746</u></u>

NOTE B

Calculation Of RUCO Adjusted Normalized SUTA @ 1.45%

14	RUCO Adjusted No. Of Paradise Valley Employees Earning Over \$7,000	WP RLM-4, Pg 5, Col. (E) @ 31	
15	RUCO Adjusted Normalized SUTA @ 1.45%	31 X \$7,000 X 1.45%	\$ 3,147
16	RUCO Adjusted Total Annual Wages For Employees Earning Under \$7,000	WP RLM-4, Pg 5, Col. (E) @ \$1,276	
17	RUCO Adjusted Normalized SUTA @ 1.45%	\$1,276 X 4.45%	19
18	Total RUCO Adjusted Normalized SUTA @ 1.45%	Line 15 + Line 17	<u><u>\$ 3,165</u></u>

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 11
RUCO ADJUSTMENT TO ALLOCATED ADMINISTRATION AND GENERAL EXPENSES

LINE NO.	DESCRIPTION	REFERENCE	(A) AMOUNT
1	Management Fees & Misc. Corp. Office Allocated Expenses As Filed By Co.	Company Workpapers	\$ 699,950
2	RUCO Adjustment To Management Fees Allocated Expenses	Testimony To Remove Incentive Bonuses	(62,478)
3	RUCO Adjustment To Miscellaneous Central Division Allocated Expenses	RLM-12, Pg 2, Col. (E), L 43	(1,204)
4	RUCO Adjustment To Miscellaneous Corporate Allocated Expenses	RLM-12, Pg 4, Col. (E), L 61	(18,233)
5	RUCO Adjusted Administration And General Allocated Expenses	Sum Of Lines 1 Thru 4	<u>\$ 618,034</u>
6	RUCO Adjustment (See RLM-3, Page 3, Column (L), Line 22)	Line 5 - Line 1	<u>\$ (81,915)</u>

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 12
RUCO ADJUSTMENT TO MISCELLANEOUS CENTRAL DIVISION EXPENSES

LINE NO.	(A) ACCOUNT NO.	(B) ACCOUNT NO.	(C) ACCOUNT DESCRIPTION	(D) YTD 2004 ACTUAL	(E) RUCO ADJUSTMENT
1	504500	16	Other Welf Oper AG	\$ 6,978	\$ 274
2	504610	16	Employee Awards AG	931	231
3	504620	16	Employee Physical Exam AG	8,601	-
4	504660	16	Tuition Aid AG	13,760	-
5	504670	16	Training AG	16,082	-
6	507100	16	401k Oper AG	5,435	-
7	508100	16	EIP Oper AG	5,129	-
8	520100	11	M & S Oper SS	26	26
9	520100	14	M & S Oper TD	570	-
10	535001	16	Contr Svc-Temp Empl Oper AG	500	-
11	550000	11	Trans Oper SS	148	-
12	550000	13	Trans Oper WT	10	-
13	550000	16	Trans Oper AG	-14,731	-
14	550000	24	Transport Maint TD	56,081	-
15	550001	16	Trans Oper AG Lease Cost	51,784	-
16	550002	16	Trans Oper AG Lease Fuel	142,452	-
17	550003	16	Trans Oper AG Lease Maint	124,993	-
18	575000	13	Misc Oper WT	509	-
19	575000	14	Misc Oper TD	50,945	1,989
20	575000	16	Misc Oper AG	4,474	-
21	575180	11	Charts SS	-948	-
22	575220	16	Community Relations	-2,115	1,879
23	575240	16	Co Dues/Membership Deduct	-12,642	-
24	575242	16	Co Dues Deduct AWWA	-9,478	-
25	575244	16	Co Dues Deduct NAWC	-474	-
26	575460	11	Grounds Keeping SS	1,282	32
27	575460	16	Grounds Keeping AG	9,637	9,137
28	575490	16	Injuries and Damages	-6,872	-
29	575500	13	Janitorial WT	8,450	-
30	575500	14	Janitorial TD	1,313	-
31	575545	13	Lab Supplies WT	-11,849	-
32	575625	16	Overnight Shipping AG	12,913	-
33	575710	13	Security Service WT	155	-
34	575710	16	Security Service AG	10,759	1,261
35	575711	16	Add'l Security Costs AG	13,586	-
36	575720	11	Telemetering SS	956	-
37	575780	14	Trash Removal TD	25	-
38	575820	11	Uniforms SS	1,822	-
39	575820	13	Uniforms WT	6,119	-
40	575820	14	Uniforms TD	39,986	-
41	TOTALS		P21 Miscellaneous	<u>\$ 537,302</u>	<u>\$ 14,829</u>
42	ARIZONA CORPORATION ALLOCATION FACTOR				8.12%
43	RUCO ADJUSTMENT TO ALLOCATED CORPORATE MISCELLANEOUS EXPENSE				<u>\$ 1,204</u>

References:

Columns (A) Thru (D): Company's Response To RUCO Data Request 9.03
Column (E): RLM-12, Pages 5 Thru 7

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 12
RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES

LINE NO.	(A) ACCOUNT NO.	(B)	(C) ACCOUNT DESCRIPTION	(D) YTD 2004 ACTUAL	(E) RUCO ADJUSTMENT
1	504500	11	Other Welf Oper SS	\$ 1,575	\$ -
2	504500	14	Other Welf Oper TD	1,400	-
3	504500	16	Other Welf Oper AG	79,784	5,820
4	504610	16	Employee Awards AG	1,806	96
5	504620	16	Employee Physical Exam AG	27,154	543
6	504660	16	Tuition Aid AG	15,164	-
7	504670	16	Training AG	23,784	-
8	507100	11	401k Oper SS	980	-
9	507100	16	401k Oper AG	13,697	-
10	508100	16	EIP Oper AG	10,406	-
11	520100	11	M & S Oper SS	-63	-
12	520100	12	M & S Oper P	-82	-
13	520100	13	M & S Oper WT	-107	-
14	520100	14	M & S Oper TD	-787	-
15	532000	11	Contr Svc-Acctg Oper SS	18,093	-
16	532000	16	Contr Svc-Acctg Oper AG	55,300	-
17	533000	13	Contr Svc-Legal Oper WT	81	81
18	533000	16	Contr Svc-Legal Oper AG	-33,333	306
19	535000	15	Contr Svc-Other Oper CA	341	-
20	535000	16	Contr Svc-Other Oper AG	80,494	33,660
21	535001	16	Contr Svc-Temp Empl Oper AG	94,590	1,023
22	536000	11	Contr Svc-Lab Testing Oper	19,145	-
23	550000	16	Trans Oper AG	-47,092	-
24	550001	16	Trans Oper AG Lease Cost	2,620	-
25	550002	16	Trans Oper AG Lease Fuel	23,880	-
26	550003	16	Trans Oper AG Lease Maint	15,132	-
27	556000	16	Ins Vehicle Oper AG	79,223	-
28	575000	11	Misc Oper SS	7,371	-
29	575000	13	Misc Oper WT	2,348	-
30	575000	14	Misc Oper TD	44,845	-
31	575000	16	Misc Oper AG	321,367	-
32	575001	16	Misc Oper Exp AG Consol	23,842	-
33	575030	16	Advertising	7,562	7,583
34	575120	16	Bill Inserts AG	47,156	-
35	575130	16	Brochures and Handouts	1,585	-
36	575140	16	Charitable Contrib Deduct	220	220
37	575220	16	Community Relations	13,806	11,310
38	575240	16	Co Dues/Membership Deduct	13,275	5,888
39	575242	16	Co Dues Deduct AWWA	50	-
40	575244	16	Co Dues Deduct NAWC	17,895	17,895
41	575245	16	Co Dues Nondeduct NAWC	3,928	3,928
42	575270	16	Directors Fees	12,750	12,750
43	575271	16	Directors Expenses	2,937	2,937
44	575275	16	Discounts Available	-847	-
45	575276	16	Discounts Lost	503	-
46	575400	16	Bus Servies Proj Exp	105,120	105,120

**EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 12
RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES - CONT'D**

LINE NO.	(A) ACCOUNT NO.	(B)	(C) ACCOUNT DESCRIPTION	(D) YTD 2004 ACTUAL	(E) RUCO ADJUSTMENT
47	575545	13	Lab Supplies WT	\$ (498)	\$ -
48	575625	16	Overnight Shipping AG	3,547	-
49	575680	16	Research & Development Exp	5,673	-
50	575710	16	Security Service AG	11,699	1,745
51	575711	16	Add'l Security Costs AG	723	-
52	575715	16	Software Licenses & Support	71,281	-
53	575720	11	Telemetering SS	4,000	4,000
54	575790	16	Trustee Fees AG	22,691	-
55	575820	11	Uniforms SS	13,231	-
56	575820	14	Uniforms TD	836	-
57	575830	11	Wtr & Waste Wtr Exp SS	250	-
58	575998	16	PCard Undistributed	29,443	9,642
59	TOTALS		P21 Miscellaneous	<u>\$ 1,271,774</u>	<u>\$ 224,545</u>
60	ARIZONA CORPORATION ALLOCATION FACTOR				8.12%
61	RUCO ADJUSTMENT TO ALLOCATED CORPORATE MISCELLANEOUS EXPENSE				<u><u>\$ 18,233</u></u>

References:

Columns (A) Thru (D): Company's Response To RUCO Data Request 9.03
Column (E): RLM-12, Pages 8 Thru 18

RUCO ADJUSTMENT TO MISCELLANEOUS CENTRAL DIVISION EXPENSES

LINE NO.	(A) ACCOUNT NO.	(B)	(C) INVOICE NO.	(D)	(E) ACCOUNT DESCRIPTION	(F) RUCO ADJUSTMENT	(G)	(H) RUCO EXPLANATION
1	504500	16	192504	PHYLLIS WINDHAM	LAKESIDE FLORIST	62.45		Not Required For Provisioning Of Service
2	504500	16	203116	PHYLLIS WINDHAM	LAKESIDE FLORIST	49.02		Not Required For Provisioning Of Service
3	504500	16	206728	PHYLLIS WINDHAM	LAKESIDE FLORIST	43.71		Not Required For Provisioning Of Service
4	504500	16	220366	PHYLLIS WINDHAM	LAKESIDE FLORIST	51.63		Not Required For Provisioning Of Service
5	504500	16	220366	PHYLLIS WINDHAM	LAKESIDE FLORIST	51.63		Not Required For Provisioning Of Service
6	504500	16	2324	Rev Dupl P-Card Posting 7-8-04	PHYLLIS WINDHAM	-51.63		Not Required For Provisioning Of Service
7	504500	16	284100	PHYLLIS WINDHAM	LAKESIDE FLORIST	67.22		Not Required For Provisioning Of Service
8	TOTAL					\$	274	
9	504610	16	131582	PHYLLIS WINDHAM	ARROWHEAD TOWNE CENTER	25.25		Not Required For Provisioning Of Service
10	504610	16	131758	PHYLLIS WINDHAM	WM SUPERCENTER SE	40.00		Not Required For Provisioning Of Service
11	504610	16	150244	PHYLLIS WINDHAM	THINGS REMEMBERED	90.25		Not Required For Provisioning Of Service
12	504610	16	175588	PHYLLIS WINDHAM	WM SUPERCENTER SE	25.00		Not Required For Provisioning Of Service
13	504610	16	229863	PHYLLIS WINDHAM	TARGET	25.00		Not Required For Provisioning Of Service
14	504610	16	262526	PHYLLIS WINDHAM	TARGET	25.00		Not Required For Provisioning Of Service
15	TOTAL					\$	231	
16	520100	11	227060	JAMES TAYLOR	ALBERTSONS #1004 S9H	26.29		Not Required For Provisioning Of Service
17	TOTAL					\$	26	
18	575000	14	131532	ROBERT GARCIA	THE HOME DEPOT	0.00		Not Required For Provisioning Of Service
19	575000	14	139865	ROBERT GARCIA	ACE HARDWARE	0.00		Not Required For Provisioning Of Service
20	575000	14	143194	ROBERT GARCIA	THE HOME DEPOT	0.00		Not Required For Provisioning Of Service
21	575000	14	143237	ROBERT GARCIA	THE HOME DEPOT	0.00		Not Required For Provisioning Of Service
22	575000	14	150232	ROBERT GARCIA	ACE HARDWARE	0.00		Not Required For Provisioning Of Service
23	575000	14	40682370	Ice Wagon The-PO/REMIT	ice	160.85		Not Required For Provisioning Of Service
24	575000	14	162317	ROBERT GARCIA	ACE HARDWARE	0.00		Not Required For Provisioning Of Service
25	575000	14	40698886	Ice Wagon The-PO/REMIT	ice	83.02		Not Required For Provisioning Of Service
26	575000	14	40748478	Ice Wagon The-PO/REMIT	SERVICES RENDERED	140.10		Not Required For Provisioning Of Service
27	575000	14	40755859	Ice Wagon The-PO/REMIT	ICE	129.72		Not Required For Provisioning Of Service
28	575000	14	203086	ROBERT GARCIA	THE HOME DEPOT	0.00		Not Required For Provisioning Of Service
29	575000	14	206699	ROBERT GARCIA	THE HOME DEPOT	0.00		Not Required For Provisioning Of Service
30	575000	14	210309	ROBERT GARCIA	THE HOME DEPOT	0.00		Not Required For Provisioning Of Service
31	575000	14	40779690	Ice Wagon The-PO/REMIT	ICE	114.15		Not Required For Provisioning Of Service
32	575000	14	223893	ROBERT GARCIA	LOWE'S	0.00		Not Required For Provisioning Of Service
33	575000	14	40805355	Ice Wagon The-PO/REMIT	SUPPLIES	134.91		Not Required For Provisioning Of Service
34	575000	14	40819815	Ice Wagon The-PO/REMIT	ICE	64.86		Not Required For Provisioning Of Service
35	575000	14	240438	ROBERT GARCIA	ACE HARDWARE	0.00		Not Required For Provisioning Of Service
36	575000	14	40825634	Ice Wagon The-PO/REMIT	SERVICES RENDERED	119.34		Not Required For Provisioning Of Service

RUCO ADJUSTMENT TO MISCELLANEOUS CENTRAL DIVISION EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B) ACCOUNT NO.	(C) INVOICE NO.	(D) ACCOUNT DESCRIPTION	(E)	(F) RUCO ADJUSTMENT	(G)	(H) RUCO EXPLANATION
37	575000	14	246766	BERT L REYNOLDS	THE HOME DEPOT	0.00		
38	575000	14	40833380	Ice Wagon The-PO/REMIT	ICE	129.72		Not Required For Provisioning Of Service
39	575000	14	40836149	Ice Wagon The-PO/REMIT	ICE	119.34		Not Required For Provisioning Of Service
40	575000	14	256093	ROBERT GARCIA	ACE HARDWARE	0.00		
41	575000	14	40849808	Ice Wagon The-PO/REMIT	ICE	140.10		Not Required For Provisioning Of Service
42	575000	14	40863561	Ice Wagon The-PO/REMIT	ICE	134.91		Not Required For Provisioning Of Service
43	575000	14	40876513	Ice Wagon The-PO/REMIT	ICE	111.20		Not Required For Provisioning Of Service
44	575000	14	284084	BERT L REYNOLDS	THE HOME DEPOT	0.00		
45	575000	14	40897229	Ice Wagon The-PO/REMIT	Ice Svc.	72.64		Not Required For Provisioning Of Service
46	575000	14	40897260	Ice Wagon The-PO/REMIT	Ice Svc.	145.29		Not Required For Provisioning Of Service
47	575000	14	299190	BERT L REYNOLDS	SAFEMWAY STORE	45.00		Not Required For Provisioning Of Service
48	575000	14	299191	BERT L REYNOLDS	SAFEMWAY STORE	45.00		Not Required For Provisioning Of Service
49	575000	14	299192	BERT L REYNOLDS	THE HOME DEPOT	0.00		
50	575000	14	299405	BERT L REYNOLDS	THE HOME DEPOT	0.00		
51	575000	14	299431	BERT L REYNOLDS	THE HOME DEPOT	0.00		
52	575000	14	40918531	Ice Wagon The-PO/REMIT	bal 186907 and 191983 AZAW	38.92		Not Required For Provisioning Of Service
53	575000	14	40918531	Ice Wagon The-PO/REMIT	bal 186907 and 191983 AZAW	60.00		Not Required For Provisioning Of Service
54	TOTAL					\$ 1,989		
55	575220	16	40637756	Community Calendar - REMIT	"	434.13		Non-Typical, Non-Recurring Expense
56	575220	16	136457	PHYLLIS WINDHAM	"	195.75		Non-Typical, Non-Recurring Expense
57	575220	16	139923	PHYLLIS WINDHAM	CITY OF SURPRISE PKS & NW VALLEY CHAMBER OF	652.50		Non-Typical, Non-Recurring Expense
58	575220	16	40699361	Huckeby, Nancy J -Petty Cash	Add Placement	75.00		Non-Typical, Non-Recurring Expense
59	575220	16	40842045	Sun City Visitors Ctr	Community Relations	435.00		Non-Typical, Non-Recurring Expense
60	575220	16	40849625	Buckeye Union High School	Community Relations	87.00		Non-Typical, Non-Recurring Expense
61	TOTAL					\$ 1,879		
62	575240	16	146959	PHYLLIS WINDHAM	AMERICAN WATER WORKS	0.00		
63	575240	16	146960	PHYLLIS WINDHAM	AMERICAN WATER WORKS	0.00		
64	575240	16	40699361	Huckeby, Nancy J -Petty Cash	Operator Certification	0.00		
65	575240	16	246793	ARTHUR W FAIELLO	AWPCA	0.00		
66	575240	16	273277	PHYLLIS WINDHAM	TECHNICAL LEARNING CON	0.00		
67	TOTAL					\$ -		
68	575460	11	266460	JAMES TAYLOR	STEVEN S DIAZ LAWN MAI	0.00		
69	575460	11	266492	JAMES TAYLOR	PRIMM VALLEY HOTEL - B	32.00		Not Required For Provisioning Of Service
70	TOTAL					\$ 32		

RUCO ADJUSTMENT TO MISCELLANEOUS CENTRAL DIVISION EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B) ACCOUNT NO.	(C) INVOICE NO.	(D) ACCOUNT DESCRIPTION	(E)	(F) RUCO ADJUSTMENT	(G)	(H) RUCO EXPLANATION
71	575460	16	131764	STEVE URAINE	STEVEN S DIAZ LAWN MAI	760.00		Not Required For Provisioning Of Service
72	575460	16	146953	STEVE URAINE	STEVEN S DIAZ LAWN MAI	760.00		Not Required For Provisioning Of Service
73	575460	16	40688640	Broken Arrow Landscape - REMIT	LAWN MAINTENANCE - AZ AMERIC	760.00		Not Required For Provisioning Of Service
74	575460	16	40734076	Broken Arrow Landscape - REMIT	Lawn Maintenance/AZ Amer Wtr	760.00		Not Required For Provisioning Of Service
75	575460	16	40735959	Broken Arrow Landscape - REMIT	LawnMaintenance/AZ Amer wtr	760.00		Not Required For Provisioning Of Service
76	575460	16	40757003	Broken Arrow Landscape - REMIT	LawnMaintenance/AZ Amer wtr	760.00		Not Required For Provisioning Of Service
77	575460	16	40783732	Broken Arrow Landscape - REMIT	LawnMaintenance/AZ Amer wtr	760.00		Not Required For Provisioning Of Service
78	575460	16	40806191	Broken Arrow Landscape - REMIT	LawnMaintenance/AZ Amer wtr	760.00		Not Required For Provisioning Of Service
79	575460	16	40832602	Broken Arrow Landscape - REMIT	LawnMaintenance/AZ Amer wtr	760.00		Not Required For Provisioning Of Service
80	575460	16	40857439	Broken Arrow Landscape - REMIT	LawnMaintenance/AZ Amer wtr	760.00		Not Required For Provisioning Of Service
81	575460	16	266490	JAMES TAYLOR	BUFFALO BILL'S-MIZ ASH	9.62		Not Required For Provisioning Of Service
82	575460	16	266491	JAMES TAYLOR	PRIMM VALLEY - GIFT SH	7.25		Not Required For Provisioning Of Service
83	575460	16	40880026	Broken Arrow Landscape - REMIT	LawnMaintenance/AZ Amer wtr	760.00		Not Required For Provisioning Of Service
84	575460	16	40903469	Broken Arrow Landscape - REMIT	LawnMaintenance/AZ Amer wtr	760.00		Not Required For Provisioning Of Service
85	TOTAL					\$ 9,137		
86	575710	16	40757916	Sonitrol(Most Use)REMIT	ParadiseValley SECUR-MRTF	180.09		Expenses Are To Exclude MRTF
87	575710	16	40783713	Sonitrol(Most Use)REMIT	ParadiseValley SECUR-MRTF	180.09		Expenses Are To Exclude MRTF
88	575710	16	40806172	Sonitrol(Most Use)REMIT	ParadiseValley SECUR-MRTF	180.09		Expenses Are To Exclude MRTF
89	575710	16	40832583	Sonitrol(Most Use)REMIT	ParadiseValley SECUR-MRTF	180.09		Expenses Are To Exclude MRTF
90	575710	16	40857420	Sonitrol(Most Use)REMIT	ParadiseValley SECUR-MRTF	180.09		Expenses Are To Exclude MRTF
91	575710	16	40880006	Sonitrol(Most Use)REMIT	ParadiseValley SECUR-MRTF	180.09		Expenses Are To Exclude MRTF
92	575710	16	40903448	Sonitrol(Most Use)REMIT	ParadiseValley SECUR-MRTF	180.09		Expenses Are To Exclude MRTF
93	TOTAL					\$ 1,261		
94	575820	13	143221	JEFFEREY A MARLOW	WAL MART	0.00		
95	575820	13	182354	HECTOR F DELGADILLO	WM SUPERCENTER SE	0.00		
96	575820	13	250119	THOMAS G WINTER	WM SUPERCENTER SE	0.00		
97	575820	13	256090	THOMAS G WINTER	WM SUPERCENTER SE	0.00		
98	575820	13	276685	MARY MCREYNOLDS	SEARS ROEBUCK	0.00		
99	TOTAL					\$ -		
100	575820	14	168692	JAMES TAYLOR	SPORTSMANS WAREHOUSE N	0.00		
101	575820	14	179107	GILBERT CORDOVA	SPORTSMANS WAREHOUSE N	0.00		
102	TOTAL					\$ -		
319	GRAND TOTAL OF RUCO'S ADJUSTMENT					\$ 14,829		

References:
Columns (A) Thru (F): Company's Response To RUCO Data Request 7.04.b.
Column (G): Sum Of Column (F)
Column (H): RUCO's Explanation For Denying Expense

RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES

LINE NO.	(A) ACCOUNT NO.	(B)	(C) INVOICE NO.	(D)	(E) ACCOUNT DESCRIPTION	(F) RUCO ADJUSTMENT	(G)	(H) RUCO EXPLANATION
1	504500	16	40641381	Professional Plants & Inc-PO/R	MAINT. OFFICE FOILAGE	\$ 41.25		Not Required For Provisioning Of Service
2	504500	16	40664592	Professional Plants & Inc-PO/R	MAINT. OFFICE FOILAGE	41.25		Not Required For Provisioning Of Service
3	504500	16	40674027	Professional Plants & Inc-PO/R	MAINT. OFFICE FOILAGE	41.25		Not Required For Provisioning Of Service
4	504500	16	40698865	Professional Plants & Inc-PO/R	BROMELIAD REPLACEMENT	37.10		Not Required For Provisioning Of Service
5	504500	16	40734404	Professional Plants & Inc-PO/R	SERVICES	41.25		Not Required For Provisioning Of Service
6	504500	16	40757016	Professional Plants & Inc-PO/R	SERVICES	41.25		Not Required For Provisioning Of Service
7	504500	16	218545	LINDA C STILLMAN	THE BEE ADVERTISING	1,308.41		Marketing Does Not Benefit Ratepayers
8	504500	16	40783745	Professional Plants & Inc-PO/R	SERVICES	41.25		Not Required For Provisioning Of Service
9	504500	16	229982	KATHLEEN M WHEAT	THE BEE ADVERTISING	1,599.17		Marketing Does Not Benefit Ratepayers
10	504500	16	40815236	Professional Plants & Inc-PO/R	NEW PLANR & CONTAINER	55.96		Not Required For Provisioning Of Service
11	504500	16	40806204	Professional Plants & Inc-PO/R	SERVICES	41.25		Not Required For Provisioning Of Service
12	504500	16	40827521	News West Publishing Inc	ADVERTISEMENT	766.48		Marketing Does Not Benefit Ratepayers
13	504500	16	40832615	Professional Plants & Inc-PO/R	SERVICES	41.25		Not Required For Provisioning Of Service
14	504500	16	40857452	Professional Plants & Inc-PO/R	SERVICES	41.25		Not Required For Provisioning Of Service
15	504500	16	40880039	Professional Plants & Inc-PO/R	SERVICES	41.25		Not Required For Provisioning Of Service
16	504500	16	284176	KATHLEEN M WHEAT	THE BEE ADVERTISING	1,599.17		Marketing Does Not Benefit Ratepayers
17	504500	16	40903481	Professional Plants & Inc-PO/R	SERVICES	41.25	\$ 5,820	Not Required For Provisioning Of Service
18	TOTAL							
19	504610	16	199215	AMY YATES	THINGS REMEMBERED	\$ 55.84		Not Required For Provisioning Of Service
20	504610	16	227023	KARL WILKINS	DILLONS RESTAURANT	40.00	\$ 96	Not Required For Provisioning Of Service
21	TOTAL							
22	504620	16	40855669	Arthur L Davis Publishing Agen	ADVERTISING	\$ 542.52	\$ 543	Marketing Does Not Benefit Ratepayers
23	TOTAL							
24	533000	13	40910138	Fennemore Craig - REMIT	Acquisition of Citizens	\$ 80.50	\$ 81	Non-Typical, Non-Recurring Expense
25	TOTAL							
26	533000	16	40739307	Fennemore Craig - REMIT	STATE WATER INITIATIVE	\$ 14.86		Non-Typical, Non-Recurring Expense
27	533000	16	40766826	Fennemore Craig - REMIT	THIRD MANAGEMENT PLAN	97.50		Non-Typical, Non-Recurring Expense
28	533000	16	40766829	Fennemore Craig - REMIT	STATE WATER INITIATIVE	0.74		Non-Typical, Non-Recurring Expense
29	533000	16	40910154	Fennemore Craig - REMIT	Third Management Plan	130.00		Non-Typical, Non-Recurring Expense
30	533000	16	40910160	Fennemore Craig - REMIT	State Water Initiative	63.00	\$ 306	Non-Typical, Non-Recurring Expense
31	TOTAL							
32	535000	16	40876245	M R Of Keystone/Vail Inc	FEE FOR ENGINEERING MGR	\$33,660.00	\$ 33,660	Expense To Be Capitalized
33	TOTAL							

RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B)	(C) INVOICE NO.	(D) ACCOUNT DESCRIPTION	(E)	(F) RUCO ADJUSTMENT	(G)	(H) RUCO EXPLANATION
34	535001	16	40901513	The Wagner Partnership - PO/RE	Layout Expansion Study	\$ 1,022.50	\$	Expense To Be Amortized
35	TOTAL					\$ 1,022.50	\$ 1,023	
36	575000	16	30011349	Amortize Syndicated Line Exp	\$13,418.01 for 10 mo	\$		
37	575000	16	30011349	Amortize Syndicated Line Exp	\$13,418.01 for 10 months.			
38	575000	16	40714697	GreenStripe Media Inc - REMIT	radio airtime	0.00		
39	575000	16	30011349	Amortize Syndicated Line Exp	\$13,418.01 for 10 months.	0.00		
40	575000	16	30011349	Amortize Syndicated Line Exp	\$13,418.01 for 10 months.	0.00		
41	575000	16	30011349	Amortize Syndicated Line Exp	\$13,418.01 for 10 months.	0.00		
42	575000	16	213669	BOBBI J TROUT	STANDARD RESTAURAN	0.00		
43	575000	16	30011349	Amortize Syndicated Line Exp	\$13,418.01 for 10 months.	0.00		
44	575000	16	30011349	Amortize Syndicated Line Exp	\$13,418.01 for 10 months.	0.00		
45	575000	16	30011349	Amortize Syndicated Line Exp	\$13,418.01 for 10 months.	0.00		
46	575000	16	262549	KARL WILKINS	RADIO SHACK	0.00		
47	575000	16	30011349	Amortize Syndicated Line Exp	\$13,418.01 for 10 months.	0.00		
48	575000	16	30011349	Amortize Syndicated Line Exp	\$13,418.01 for 10 months.	0.00		
49	575000	16	188949	MICHAEL J HERNANDEZ	WALGREEN	0.00		
50	TOTAL					\$	\$	
51	575001	16	40709043	Maricopa County Env Svc Dept	Permit App. for Sabrosa	\$	\$	
52	TOTAL					\$	\$	
53	575030	16	40652395	Woodenship Advertising & Publi	veterans day ad	\$ 732.00		Marketing Does Not Benefit Ratepayers
54	575030	16	40692357	Woodenship Advertising & Publi	ADVERTISING	615.50		Marketing Does Not Benefit Ratepayers
55	575030	16	40729140	Woodenship Advertising & Publi	BBQ AD 4/2004	445.13		Marketing Does Not Benefit Ratepayers
56	575030	16	250159	KATHLEEN M WHEAT	THE BEE ADVERTISING	3,188.68		Marketing Does Not Benefit Ratepayers
57	575030	16	250161	KATHLEEN M WHEAT	RECOURSE COMMUNICATION	998.23		Marketing Does Not Benefit Ratepayers
58	575030	16	250167	KATHLEEN M WHEAT	OBSERVER NEWSPAPER	1,166.55		Marketing Does Not Benefit Ratepayers
59	575030	16	40918908	Woodenship Advertising & Publi	HARDYVILLE DAYS PROGRAM	436.50		Marketing Does Not Benefit Ratepayers
60	TOTAL					\$	\$ 7,583	
61	575120	16	40992354	Woodenship Advertising & Publi	ADVERTISING	\$		
62	575120	16	40698482	Woodenship Advertising & Publi	PO# CA04019	0.00		
63	575120	16	40725448	Woodenship Advertising & Publi	po #ca04037	0.00		
64	575120	16	40725451	Alcorn Printing Group Inc	cust #000000068500	0.00		
65	575120	16	40729148	Direct Impact Marketing	BILL INSERT	0.00		
66	575120	16	40783815	Direct Impact Marketing	BILL INSERTS	0.00		
67	575120	16	40870927	Direct Impact Marketing	BILL INSERT	0.00		

RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B) INVOICE NO.	(C) ACCOUNT DESCRIPTION	(D)	(E)	(F) RUCO ADJUSTMENT	(G)	(H) RUCO EXPLANATION
68	575120	16	40909439	Woodenship Advertising & Publi	CA04227	\$ -		
69	575120	16	40676046	Direct Impact	coordination, product	0.00		
70	575120	16	40718273	Direct Impact Marketing	SERVICE RENDERED	0.00		
71	575120	16	40780934	Direct Impact Marketing	2003 CCR	0.00		
72	575120	16	40787735	Direct Impact Marketing	2003 CCP	0.00		
73	575120	16	40843538	Advanced Communications Agency	PRINTING BILL INSERT	0.00		
74	TOTAL					\$ -		
75	575140	16	199220	RAY L JONES	NSPE MEMBERSHIP DUES	\$ 220.00		Expenses Denied In Prior AZ-AM Dec. No. 6709:
76	TOTAL					\$ 220.00		
77	575220	16	40647606	West Valley Fine Arts Council	cust id azam	\$ 3,750.00		Not Required For Provisioning Of Service
78	575220	16	131526	PHYLLIS WINDHAM	NW VALLEY CHAMBER OF	450.00		Not Required For Provisioning Of Service
79	575220	16	131527	PHYLLIS WINDHAM	NW VALLEY CHAMBER OF	-450.00		Not Required For Provisioning Of Service
80	575220	16	40654417	Sandra Day O'Connor Yearbook	Company Contribution	64.35		Not Required For Provisioning Of Service
81	575220	16	143171	MELISSA SADOSKI	BIG LOTS	15.71		Not Required For Provisioning Of Service
82	575220	16	40669745	Deer Valley Education Foundati	Contribution to DV Spelling B	100.00		Not Required For Provisioning Of Service
83	575220	16	150250	PHYLLIS WINDHAM	WESTSIDE FOOD BANK	500.00		Not Required For Provisioning Of Service
84	575220	16	40676722	Sun Cities Senior Softball Clu	Contribution-Softball Tourm.	100.00		Not Required For Provisioning Of Service
85	575220	16	40689379	Surprise Sundancers	Charly Game/Dinner Reception	495.00		Not Required For Provisioning Of Service
86	575220	16	40693471	Southwest Valley Chamber of Co	Goodyear relations	25.00		Not Required For Provisioning Of Service
87	575220	16	40698956	City of Surprise - REMIT	Community Relations	1,500.00		Not Required For Provisioning Of Service
88	575220	16	175526	AMY YATES	ANTHEM COMMUNITY CNT	105.60		Not Required For Provisioning Of Service
89	575220	16	40734706	Arizona Municipal Water Users	ARIZONA DESERT BROCH	196.35		Not Required For Provisioning Of Service
90	575220	16	192457	AMY YATES	ANTHEM COMMUNITY CNT	20.00		Not Required For Provisioning Of Service
91	575220	16	203053	FRED SCHNEIDER	BOYS CLUB OF PHX	100.00		Not Required For Provisioning Of Service
92	575220	16	210352	PHYLLIS WINDHAM	NW VALLEY CHAMBER OF	448.05		Not Required For Provisioning Of Service
93	575220	16	40693471	Southwest Valley Chamber of Co	Goodyear relations	-25.00		Not Required For Provisioning Of Service
94	575220	16	40856422	Maricopa Water District - REMI	Pleasant Harbor July 4th	1,000.00		Not Required For Provisioning Of Service
95	575220	16	40877088	Southwest Valley Chamber of Co	GOLF TOURNAMENT SPONSOR	150.00		Not Required For Provisioning Of Service
96	575220	16	273284	PHYLLIS WINDHAM	BUCKEYE VALLEY CHA	25.00		Not Required For Provisioning Of Service
97	575220	16	40877690	PORA	Contribution to PORA's	100.00		Not Required For Provisioning Of Service
98	575220	16	280341	PHYLLIS WINDHAM	ANTHEM COMMUNITY CNT	1,000.00		Not Required For Provisioning Of Service
99	575220	16	284095	PHYLLIS WINDHAM	NW VALLEY CHAMBER OF	860.00		Not Required For Provisioning Of Service
100	575220	16	40912872	Sheriff's Posse of Sun City	Fund Drive Donation	300.00		Not Required For Provisioning Of Service
101	575220	16	40918895	Woodenship Advertising & Publi	PROJECT CA04187	480.00		Not Required For Provisioning Of Service
102	TOTAL					\$ 11,310		

RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B) ACCOUNT NO.	(C) INVOICE NO.	(D) ACCOUNT DESCRIPTION	(E)	(F) RUCO ADJUSTMENT	(G)	(H) RUCO EXPLANATION
				FASTR - YRENDACCRL 00023		\$		
103	575240	16	30125251	Year End Accrual		0.00		
104	575240	16	131557	DAILY NEWS SUN		0.00		
105	575240	16	131580	ARIZONA CAPITOL TIMES		0.00		
106	575240	16	40676721	Directory, Local Government		0.00		
107	575240	16	40685384	League of Arizona Cities and T		0.00		
108	575240	16	40685385	SECRETARY OF STATE-ATTN NOT		0.00		
109	575240	16	165279	Clerk of Superior Court-REMIT		0.00		
110	575240	16	40706972	SHIRLEY L WATKINS		0.00		
111	575240	16	175531	Goodyear, City of		0.00		
112	575240	16	175532	MELISSA SADOSKI		0.00		
113	575240	16	175564	MELISSA SADOSKI		0.00		
114	575240	16	40717432	SHIRLEY L WATKINS		0.00		
115	575240	16	40719760	Water Utilities Association of		0.00		
116	575240	16	40729083	WESTMARC - REMIT		160.00		Expenses Denied In Prior AZ-AM Dec. No. 6709;
117	575240	16	40732253	WESTMARC - REMIT		0.00		
118	575240	16	40732255	Aulia - Remit		3.30		Expenses Denied In Prior AZ-AM Dec. No. 6709;
119	575240	16	2329	Aulia - Remit		1,650.00		Expenses Denied In Prior AZ-AM Dec. No. 6709;
120	575240	16	199189	P-Card Corrections 575998		412.50		Expenses Denied In Prior AZ-AM Dec. No. 6709;
121	575240	16	199286	AMY YATES		412.50		Expenses Denied In Prior AZ-AM Dec. No. 6709;
122	575240	16	40754124	ANITRIA HAIRSTON		0.00		
123	575240	16	30143054	Arizona State Board of Tech Re		0.00		
124	575240	16	30143054	FASTR - F1ACCRUALS F1_4_00023		0.00		
125	575240	16	210258	FASTR - F1ACCRUALS F1_4_00023		0.00		
126	575240	16	30148613	MELISSA SADOSKI		0.00		
127	575240	16	30148613	FASTR - F1ACCRUALS F2_5_00023		0.00		
128	575240	16	30152116	FASTR - F1ACCRUALS F2_5_00023		0.00		
129	575240	16	30152116	FASTR - F2ACCRUALS F2_4_00023		0.00		
130	575240	16	40816209	FASTR - F2ACCRUALS F2_4_00023		0.00		
131	575240	16	240462	Arizona Utility Investors Asso		1,250.00		Expenses Denied In Prior AZ-AM Dec. No. 6709;
132	575240	16	240482	DALE E CONOVER		0.00		
133	575240	16	30156087	DALE E CONOVER		0.00		
134	575240	16	30156087	FASTR - F1ACCRUALS F2_4_00023		0.00		
135	575240	16	2325	FASTR - F1ACCRUALS F2_4_00023		0.00		
136	575240	16	40842042	Reclass Undist P-Card Errors		0.00		
137	575240	16	40846250	State of Arizona		0.00		
138	575240	16	30160994	State of Arizona Bd of Technic		0.00		
139	575240	16	30160994	FASTR - F1ACCRUALS F3_00023		0.00		
140	575240	16	40676721	FASTR - F1ACCRUALS F3_00023		0.00		
				League of Arizona Cities and T		0.00		

RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B)	(C) INVOICE NO.	(D) ACCOUNT DESCRIPTION	(E)	(F) RUCO ADJUSTMENT	(G)	(H) RUCO EXPLANATION
141	575240	16	266444	CAMILA C FERNANDEZ	AMERICAN WATER WORKS	\$		
142	575240	16	40842042	State of Arizona	Registration	0.00		
143	575240	16	30164162	FASTR - F1ACCRUALS F3_00023	F3 Accrual - Period 10	0.00		
144	575240	16	30164162	FASTR - F1ACCRUALS F3_00023	F3 Accrual - Period 10	0.00		
145	575240	16	276692	ANITRIA HAIRSTON	ASCE-RESTON VA	0.00		
146	575240	16	280343	PHYLLIS WINDHAM	WATER EDUCATION FOUNDA	0.00		
147	575240	16	30169523	FASTR - F1ACCRUALS F3_00023	F3 Accrual - Period 11	0.00		
148	575240	16	30169523	FASTR - F1ACCRUALS F3_00023	F3 Accrual - Period 11	0.00		
149	575240	16	292634	ANITRIA HAIRSTON	AMERICAN WATER WORKS	0.00		
150	575240	16	40912869	Phoenix, City of - Finance Dep	CASS dues for Fiscal Yr 2005	0.00		
151	575240	16	40915453	Investor Owned Water Utility A	ANNUAL MEMBERSHIP DUES	2,000.00		Expenses Denied In Prior AZ-AM Dec. No. 6709:
152	575240	16	30178684	FASTR - F1ACCRUALS F4_23	F4 Accrual - Period	0.00		
153	575240	16	262458	MICHAEL J HERNANDEZ	AMERICAN BACKFLOW PREV	0.00	\$ 5,888	
154	TOTAL					\$		
155	575242	16		American Water Works Assoc-AWW CUST 005333330		\$		
156	TOTAL					\$		
157	575244	16	40713015	NAWC-Washington DC	NAWC 2004 Dues	\$ 17,895.00	\$ 17,895	Expenses Denied In Prior AZ-AM Dec. No. 6709:
158	TOTAL					\$		
159	575245	16	40713015	NAWC-Washington DC	NAWC 2004 Dues Lobbying	\$ 3,928.00	\$ 3,928	Expenses Denied In Prior AZ-AM Dec. No. 6709:
160	TOTAL					\$		
161	575270	16	40651858	Georgeson, Duane L-DIRECTOR FE 4th Qtr Adjustment - 2003		\$ 750.00		Not Required For Provisioning Of Service
162	575270	16	40651861	Georgeson, Duane L-DIRECTOR FE 1st Qtr Retainer 2004		1,000.00		Not Required For Provisioning Of Service
163	575270	16	40658784	Georgeson, Duane L-DIRECTOR FE Board Mtg Fees 10/23 + 12/18		1,000.00		Not Required For Provisioning Of Service
164	575270	16	40721764	Georgeson, Duane L-DIRECTOR FE 2nd Qtr Retainer 2004		1,000.00		Not Required For Provisioning Of Service
165	575270	16	40721767	Duque, Henry M	2nd Qtr Retainer 2004	1,000.00		Not Required For Provisioning Of Service
166	575270	16	40727826	Georgeson, Duane L-DIRECTOR FE Board Mtg Fee (AZ) - 4/14/04		500.00		Not Required For Provisioning Of Service
167	575270	16	40727827	Duque, Henry M	Board Mtg Fee - 4/14/04	500.00		Not Required For Provisioning Of Service
168	575270	16	40748924	Duque, Henry M	Retainer Fee: 1st Qtr 2004	1,000.00		Not Required For Provisioning Of Service
169	575270	16	40898750	Georgeson, Duane L-DIRECTOR FE Retainer Fees 3QRF		1,000.00		Not Required For Provisioning Of Service
170	575270	16	40898752	Georgeson, Duane L-DIRECTOR FE Retainer Fee 4th QTR 2004		1,000.00		Not Required For Provisioning Of Service
171	575270	16	40902100	Georgeson, Duane L-DIRECTOR FE AZ Brd Mtg Fees 10/18/04		500.00		Not Required For Provisioning Of Service
172	575270	16	40902100	Georgeson, Duane L-DIRECTOR FE AZ Brd Mtg Fees 7/14/04		500.00		Not Required For Provisioning Of Service
173	575270	16	40902101	Duque, Henry M	AZ Brd Mtg Fees 10/18/04	500.00		Not Required For Provisioning Of Service
174	575270	16	40902101	Duque, Henry M	AZ Brd Mtg Fees 7/14/04	500.00		Not Required For Provisioning Of Service

RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B)	(C) INVOICE NO.	(D)	(E) ACCOUNT DESCRIPTION	(F) RUCO ADJUSTMENT	(G)	(H) RUCO EXPLANATION
175	575270	16	40912867	Duque, Henry M	3rd QTR Retainer Fee	\$ 1,000.00		Not Required For Provisioning Of Service
176	575270	16	40912868	Duque, Henry M	4th QTR Retainer Fee	1,000.00	\$ 12,750	Not Required For Provisioning Of Service
177	TOTAL							
178	575271	16	40668018	Georgeson, Duane L-DIRECTOR FE	Phoenix Expenses	\$ 279.40		Not Required For Provisioning Of Service
179	575271	16	40721762	Duque, Henry M	Director Expenses	229.07		Not Required For Provisioning Of Service
180	575271	16	40729991	Duque, Henry M	Director's expenses 04/14/04	492.61		Not Required For Provisioning Of Service
181	575271	16	40748924	Duque, Henry M	Directors Expenses: 5/3-5/4	448.39		Not Required For Provisioning Of Service
182	575271	16	40825580	Georgeson, Duane L-DIRECTOR FE	Brd Mtg Exp 07/20/04	166.11		Not Required For Provisioning Of Service
183	575271	16	40825581	Duque, Henry M	Brd Mtg Exp 07/20/04	509.24		Not Required For Provisioning Of Service
184	575271	16	40895943	Duque, Henry M	EXPENSES	811.98	\$ 2,937	Not Required For Provisioning Of Service
185	TOTAL							
186	575400	16	30125251	FASTR - YRENDACCRL 00023	Year End Accrual	\$ 8,201.03		Non-Typical, Non-Recurring Expense
187	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,587.80		Non-Typical, Non-Recurring Expense
188	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,339.70		Non-Typical, Non-Recurring Expense
189	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,587.80		Non-Typical, Non-Recurring Expense
190	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,339.70		Non-Typical, Non-Recurring Expense
191	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,641.99		Non-Typical, Non-Recurring Expense
192	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,498.63		Non-Typical, Non-Recurring Expense
193	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,632.56		Non-Typical, Non-Recurring Expense
194	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,509.47		Non-Typical, Non-Recurring Expense
195	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,587.85		Non-Typical, Non-Recurring Expense
196	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,509.47		Non-Typical, Non-Recurring Expense
197	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,587.85		Non-Typical, Non-Recurring Expense
198	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,509.47		Non-Typical, Non-Recurring Expense
199	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,587.85		Non-Typical, Non-Recurring Expense
200	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,509.47		Non-Typical, Non-Recurring Expense
201	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,587.85		Non-Typical, Non-Recurring Expense
202	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,509.47		Non-Typical, Non-Recurring Expense
203	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,587.85		Non-Typical, Non-Recurring Expense
204	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,510.18		Non-Typical, Non-Recurring Expense
205	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,587.85		Non-Typical, Non-Recurring Expense
206	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,510.18		Non-Typical, Non-Recurring Expense
207	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,587.85		Non-Typical, Non-Recurring Expense
208	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,510.18		Non-Typical, Non-Recurring Expense
209	575400	16	30025956	Amortize Fin Services Project	Amortize Fin Serv Proj	3,587.85		Non-Typical, Non-Recurring Expense
210	575400	16	30028713	Amortize Customer Service Proj	Amortize Fin Serv Proj	4,510.18	\$ 105,120	Non-Typical, Non-Recurring Expense
211	TOTAL							

RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B) INVOICE NO.	(C) ACCOUNT DESCRIPTION	(D) ACCOUNT DESCRIPTION	(E) ACCOUNT DESCRIPTION	(F) RUCO ADJUSTMENT	(G) RUCO ADJUSTMENT	(H) RUCO EXPLANATION
212	575710	16	40674991	American Fence Company	MONTHLY RENT 01/09-02/08/04	\$ 176.22		Non-Typical, Non-Recurring Expense
213	575710	16	40683051	American Fence Company	cust #251255	176.22		Non-Typical, Non-Recurring Expense
214	575710	16	40692004	American Fence Company	ANTHEM 251255 1239876 AZAW	176.22		Non-Typical, Non-Recurring Expense
215	575710	16	40707333	American Fence Company	MONTHLY RENT 03/09 TO 04/08	176.22		Non-Typical, Non-Recurring Expense
216	575710	16	40732227	American Fence Company	RENTAL	176.22		Non-Typical, Non-Recurring Expense
217	575710	16	40757319	American Fence Company	TEMPORARY FENCE	176.22		Non-Typical, Non-Recurring Expense
218	575710	16	40768003	American Fence Company	CUST 251255	195.66		Non-Typical, Non-Recurring Expense
219	575710	16	40793920	American Fence Company	RENTAL OF TEMP FENCE	53.03		Non-Typical, Non-Recurring Expense
220	575710	16	40805484	American Fence Company	RENTAL	53.03		Non-Typical, Non-Recurring Expense
221	575710	16	40836294	American Fence Company	CUST 251255	53.03		Non-Typical, Non-Recurring Expense
222	575710	16	40855726	American Fence Company	RENTAL 9/9/04-10/8/04	53.03		Non-Typical, Non-Recurring Expense
223	575710	16	40886344	American Fence Company	RENTAL	53.03		Non-Typical, Non-Recurring Expense
224	575710	16	40880002	Sonitrol(Most Use)REMIT	SERVICES	174.06		Non-Typical, Non-Recurring Expense
225	575710	16	30169523	FASTR - F1ACCRUALS F3_00023	F3 Accrual - Period 11	262.50		Non-Typical, Non-Recurring Expense
226	575710	16	30169523	FASTR - F1ACCRUALS F3_00023	F3 Accrual - Period 11	-262.50		Non-Typical, Non-Recurring Expense
227	575710	16	40911237	American Fence Company	CUST #251255	53.03		Non-Typical, Non-Recurring Expense
228	TOTAL					\$ 1,745		
229	575720	11	40680037	OPS Systems-POIREMIT	training days,tl&ex	\$ 3,426.17		Expense To Be Amortize
230	575720	11	210296	RAYMOND MAHONEY	CONTRACT TELCOM ENGINE	573.76		Expense To Be Capitalized
231	TOTAL					\$ 4,000		
232	575998	16	126727	DEAN LANDONI	THE HOME DEPOT	\$ 35.49		Not Required For Provisioning Of Service
233	575998	16	131670	LEE F HUDDLESTON	THE HOME DEPOT	12.36		Not Required For Provisioning Of Service
234	575998	16	131695	DOUG GRIFFITH	DANONE WATERS OF NORTH	36.83		Not Required For Provisioning Of Service
235	575998	16	136390	TIM FRIDAY	CIRCLE K	4.40		Not Required For Provisioning Of Service
236	575998	16	136394	TIM FRIDAY	CACTUS FLOWER FLORISTS	52.23		Not Required For Provisioning Of Service
237	575998	16	136406	ADAM SPARTZ	PIZZA HUT BULL	39.84		Not Required For Provisioning Of Service
238	575998	16	136439	BRIAN DIEGO	CORRAL WEST	125.00		Not Required For Provisioning Of Service
239	575998	16	139869	LARRY A BERRY	WAL MART	20.31		Not Required For Provisioning Of Service
240	575998	16	143173	AMY YATES	PAPA JOHN'S	164.60		Not Required For Provisioning Of Service
241	575998	16	143231	YGNASIO SAMARRIPA	THE HOME DEPOT	18.90		Not Required For Provisioning Of Service
242	575998	16	143243	TIM FRIDAY	BURGERMANIA	8.42		Not Required For Provisioning Of Service
243	575998	16	143267	TIM FRIDAY	ROMEN S GYROS	27.25		Not Required For Provisioning Of Service
244	575998	16	143310	JAMES A GROOMAN	ACE HARDWARE ANTHEM	12.73		Not Required For Provisioning Of Service
245	575998	16	143314	MIKE MASSON	PAUL S ACE HARDWARE	73.86		Not Required For Provisioning Of Service
246	575998	16	146921	KARL WILKINS	BEST BUY	162.14		Not Required For Provisioning Of Service
247	575998	16	150223	FRANK RIOS	SAN DIEGO PIER CAFE	77.61		Not Required For Provisioning Of Service

RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B)	(C) INVOICE NO.	(D)	(E) ACCOUNT DESCRIPTION	(F) RUCO ADJUSTMENT \$	(G)	(H) RUCO EXPLANATION
248	575998	16	150230	JAMES ISHMAEL	PILOT TRAVEL CENTER	4.93		Not Required For Provisioning Of Service
249	575998	16	150235	BLAINE AKINE	HARBOR HOUSE RESTAURAN	60.38		Not Required For Provisioning Of Service
250	575998	16	150256	ROBERT GARCIA	WM SUPERCENTER SE	6.27		Not Required For Provisioning Of Service
251	575998	16	150264	CHARLES WILKINS	RADIO SHACK	4.29		Not Required For Provisioning Of Service
252	575998	16	150667	MIKE MASSON	THE HOME DEPOT	134.58		Not Required For Provisioning Of Service
253	575998	16	150095	CHARLES WILKINS	THE HOME DEPOT	18.47		Not Required For Provisioning Of Service
254	575998	16	159104	YGNASIO SAMARRIPA	LOWE'S	83.39		Not Required For Provisioning Of Service
255	575998	16	162287	DEAN LANDONI	FOOD CITY #108 STP	30.00		Not Required For Provisioning Of Service
256	575998	16	165216	SHAWNTEL QUALLS	TARGET	66.62		Not Required For Provisioning Of Service
257	575998	16	168706	DEAN LANDONI	FOOD CITY #108 STP	30.00		Not Required For Provisioning Of Service
258	575998	16	175571	ROBERT GARCIA	THE HOME DEPOT	-53.90		Not Required For Provisioning Of Service
259	575998	16	175607	MIKE MASSON	JR PERKINS	236.95		Not Required For Provisioning Of Service
260	575998	16	192526	ROBERT L CRON	HOLIDAY INNS	200.22		Not Required For Provisioning Of Service
261	575998	16	192578	CHARLES WILKINS	ACE HARDWARE	3.37		Not Required For Provisioning Of Service
262	575998	16	192579	ANITRIA HAIRSTON	1-800-FLOWERS.COM,INC.	75.75		Not Required For Provisioning Of Service
263	575998	16	195663	MIKE MASSON	THE HOME DEPOT	42.48		Not Required For Provisioning Of Service
264	575998	16	195685	MIKE MASSON	THE HOME DEPOT	47.95		Not Required For Provisioning Of Service
265	575998	16	203088	AARON L ASHCROFT	FLAMINGO LAUGHLIN	33.64		Not Required For Provisioning Of Service
266	575998	16	210392	DANIEL V ZAMORA	STREETS OF NEW YORK	59.36		Not Required For Provisioning Of Service
267	575998	16	213683	MIKE MASSON	BASHA S 16 SYW	2.01		Not Required For Provisioning Of Service
268	575998	16	217332	JAMES A GROOMAN	ACE HARDWARE ANTHEM	38.87		Not Required For Provisioning Of Service
269	575998	16	217365	ROVELL L FOGGY	GOLDEN WOK RESTAURANT	30.00		Not Required For Provisioning Of Service
270	575998	16	220370	KRAIG R KNIGHT	SOUPER SALAD	20.96		Not Required For Provisioning Of Service
271	575998	16	220370	KRAIG R KNIGHT	SOUPER SALAD	24.53		Not Required For Provisioning Of Service
272	575998	16	223880	VIVIEN TOBER	STREETS OF NEW YORK	11.13		Not Required For Provisioning Of Service
273	575998	16	226985	CHARLES WILKINS	RADIO SHACK	10.55		Not Required For Provisioning Of Service
274	575998	16	226986	CHARLES WILKINS	THE HOME DEPOT	10.55		Not Required For Provisioning Of Service
275	575998	16	227012	RAYMOND MAHONEY	EL PALOMAR MONTEREY	16.62		Not Required For Provisioning Of Service
276	575998	16	227015	RAYMOND MAHONEY	EL PALOMAR MONTEREY	24.13		Not Required For Provisioning Of Service
277	575998	16	227020	RAYMOND MAHONEY	EASY MART II	20.00		Not Required For Provisioning Of Service
278	575998	16	227021	RAYMOND MAHONEY	MONTEREY DWN TRAVELODG	261.80		Not Required For Provisioning Of Service
279	575998	16	227051	JAMES TAYLOR	TUBAC JACKS	22.00		Not Required For Provisioning Of Service
280	575998	16	227052	JAMES TAYLOR	CRACKER BARREL	25.00		Not Required For Provisioning Of Service
281	575998	16	227057	KARL WILKINS	CHARLIE BROWNS	34.59		Not Required For Provisioning Of Service
282	575998	16	227057	KARL WILKINS	CHARLIE BROWNS	34.59		Not Required For Provisioning Of Service
283	575998	16	227057	KARL WILKINS	CHARLIE BROWNS	34.60		Not Required For Provisioning Of Service
284	575998	16	227063	KARL WILKINS	NEWARK INT'L AIRPORT	8.22		Not Required For Provisioning Of Service
285	575998	16	236926	KARL WILKINS	EXECUTIVE DAYS INN	219.68		Not Required For Provisioning Of Service

RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B) INVOICE NO.	(C) ACCOUNT DESCRIPTION	(D)	(E)	(F) RUCO ADJUSTMENT	(G)	(H) RUCO EXPLANATION
						\$		
286	575998	16	237033	DALE E CONOVER	APPLEBEE'S	38.64		Not Required For Provisioning Of Service
287	575998	16	243498	ADAM SPARTZ	SAFEWAY STORE	10.14		Not Required For Provisioning Of Service
288	575998	16	246900	MARY MCREYNOLDS	THE HOME DEPOT	55.52		Not Required For Provisioning Of Service
289	575998	16	252966	DON BREEDING	WENDY'S #1812 Q	8.26		Not Required For Provisioning Of Service
290	575998	16	253029	ROBERT C MANNING	THE RAVEN AT VERRADO	44.90		Not Required For Provisioning Of Service
291	575998	16	259260	ADAM SPARTZ	MINI SERVE DAIRY	26.24		Not Required For Provisioning Of Service
292	575998	16	262421	RAYMOND MAHONEY	BEST BUY	20.49		Not Required For Provisioning Of Service
293	575998	16	262528	MICHAEL J CONLIN	THE HOME DEPOT	23.70		Not Required For Provisioning Of Service
294	575998	16	262568	DALE E CONOVER	RADISSION TUCSON CITY C	197.01		Not Required For Provisioning Of Service
295	575998	16	262587	ROBERT L CROH	STEVEN S DIAZ LAWN MAI	725.00		Not Required For Provisioning Of Service
296	575998	16	262592	BOBBI J TROUT	PARADISE BAKERY	256.04		Not Required For Provisioning Of Service
297	575998	16	262624	BOBBI J TROUT	LAQUINTA PHOENIX	198.72		Not Required For Provisioning Of Service
298	575998	16	266428	ROBERT C MANNING	THE RAVEN AT VERRADO	31.59		Not Required For Provisioning Of Service
299	575998	16	266520	ROBERT GARCIA	WHISKEY PETE'S HOTEL&C	132.63		Not Required For Provisioning Of Service
300	575998	16	269817	SHIRLEY L WATKINS	DOUBLETREE HOTELS GSH	13.66		Not Required For Provisioning Of Service
301	575998	16	269818	SHIRLEY L WATKINS	DOUBLETREE HOTELS GSH	14.72		Not Required For Provisioning Of Service
302	575998	16	269820	SHIRLEY L WATKINS	PREFLIGHT ARIZONA	32.00		Not Required For Provisioning Of Service
303	575998	16	269821	SHIRLEY L WATKINS	DOUBLETREE HOTELS GSH	14.72		Not Required For Provisioning Of Service
304	575998	16	269883	THOMAS G WINTER	THE HOME DEPOT	60.27		Not Required For Provisioning Of Service
305	575998	16	273237	ADAM SPARTZ	SAFEWAY STORE	10.14		Not Required For Provisioning Of Service
306	575998	16	273252	CHARLES DONAT	WHISKEY PETE'S HOTEL&C	119.80		Not Required For Provisioning Of Service
307	575998	16	273295	DON BREEDING	COUNTRY CLUB DINER	18.48		Not Required For Provisioning Of Service
308	575998	16	273297	DOUG GRIFFITH	DILLONS RESTAURANT	18.68		Not Required For Provisioning Of Service
309	575998	16	273335	DON BREEDING	WINGATE INN VOORHEES	186.96		Not Required For Provisioning Of Service
310	575998	16	273336	DON BREEDING	LONE STAR-VOOR	71.14		Not Required For Provisioning Of Service
311	575998	16	273342	DANIEL V ZAMORA	MACAYO'S SURPRISE	80.00		Not Required For Provisioning Of Service
312	575998	16	273385	DON BREEDING	SIDE STREET CAFE	20.84		Not Required For Provisioning Of Service
313	575998	16	276707	ARTHUR W FAIELLO	THE RAVEN AT VERRADO	56.10		Not Required For Provisioning Of Service
314	575998	16	280297	ROBERT GARCIA	WALGREEN	7.86		Not Required For Provisioning Of Service
315	575998	16	280315	KARL WILKINS	DRURY INN & SUITES CRE	207.14		Not Required For Provisioning Of Service
316	575998	16	280329	KARL WILKINS	MCDONALD'S F25121 Q	3.79		Not Required For Provisioning Of Service
317	575998	16	280337	DOUG GRIFFITH	RIO MIRAGE CAFE	18.35		Not Required For Provisioning Of Service
318	575998	16	280360	ADAM SPARTZ	TRI-STATE ACE HOMECENT	7.05		Not Required For Provisioning Of Service
319	575998	16	280366	KARL WILKINS	BRISTOL BAR & GRILL	331.70		Not Required For Provisioning Of Service
320	575998	16	280367	KARL WILKINS	ROBATA OF JAPAN	14.52		Not Required For Provisioning Of Service
321	575998	16	280368	KARL WILKINS	ROBATA OF JAPAN	65.03		Not Required For Provisioning Of Service
322	575998	16	280377	KARL WILKINS	BRISTOL BAR & GRILL	131.03		Not Required For Provisioning Of Service
323	575998	16	280378	KARL WILKINS	APPLEBEE'S CRE	9.08		Not Required For Provisioning Of Service

RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B)	(C) INVOICE NO.	(D)	(E) ACCOUNT DESCRIPTION	(F) RUCO ADJUSTMENT	(G)	(H) RUCO EXPLANATION
324	575998	16	280380	MARK CARDOZA	HUACH TMAC	\$ 14.00		Not Required For Provisioning Of Service
325	575998	16	280382	KARL WILKINS	DRURY INN & SUITES CRE	344.92		Not Required For Provisioning Of Service
326	575998	16	280383	KARL WILKINS	DRURY INN & SUITES CRE	344.85		Not Required For Provisioning Of Service
327	575998	16	280400	KARL WILKINS	APPLEBEE'S CRE	12.78		Not Required For Provisioning Of Service
328	575998	16	280410	ADAM SPARTZ	SAFEGWAY STORE	10.14		Not Required For Provisioning Of Service
329	575998	16	280411	KARL WILKINS	DRURY INN & SUITES CRE	114.95		Not Required For Provisioning Of Service
330	575998	16	280412	KARL WILKINS	DRURY INN & SUITES CRE	116.24		Not Required For Provisioning Of Service
331	575998	16	284124	MARK CARDOZA	YUMA COMFORT INN	78.92		Not Required For Provisioning Of Service
332	575998	16	287153	MELISSA SADOSKI	BASKIN ROBBINS/TOGO'S	5.60		Not Required For Provisioning Of Service
333	575998	16	287154	MELISSA SADOSKI	MACAYO'S CORP	502.41		Not Required For Provisioning Of Service
334	575998	16	287157	MELISSA SADOSKI	BEST BUY	64.85		Not Required For Provisioning Of Service
335	575998	16	287163	MELISSA SADOSKI	LONG JOHN SILV02800Q	13.82		Not Required For Provisioning Of Service
336	575998	16	287164	MELISSA SADOSKI	HERTZ RENT-A-CAR	232.51		Not Required For Provisioning Of Service
337	575998	16	287165	MELISSA SADOSKI	SKY HARBOR AIRPORT T	48.00		Not Required For Provisioning Of Service
338	575998	16	287166	MELISSA SADOSKI	WINGATE INN VOORHEES	186.96		Not Required For Provisioning Of Service
339	575998	16	287169	MELISSA SADOSKI	BEST BUY	313.45		Not Required For Provisioning Of Service
340	575998	16	287170	MELISSA SADOSKI	BEST BUY	11.34		Not Required For Provisioning Of Service
341	575998	16	287249	CHARLES WILKINS	THE HOME DEPOT	24.72		Not Required For Provisioning Of Service
342	575998	16	292503	AMY YATES	GIFT SERVICES INC	41.10		Not Required For Provisioning Of Service
343	575998	16	292572	HECTOR F DELGADILLO	ACE HARDWARE ANTHEM	10.59		Not Required For Provisioning Of Service
344	575998	16	292583	CHARLES WILKINS	ACE HARDWARE	18.25		Not Required For Provisioning Of Service
345	575998	16	292593	CHARLES WILKINS	ACE HARDWARE	21.25		Not Required For Provisioning Of Service
346	575998	16	292601	CHARLES WILKINS	ACE HARDWARE	3.88		Not Required For Provisioning Of Service
347	575998	16	292611	MARK CARDOZA	DAISY MAE'S STRONGHOLD	29.20		Not Required For Provisioning Of Service
348	575998	16	292614	MARK CARDOZA	SUN CANYON INN	71.39		Not Required For Provisioning Of Service
349	575998	16	292624	MARK CARDOZA	HUACH TMAC	14.00		Not Required For Provisioning Of Service
350	575998	16	299248	KRAIG R KNIGHT	LOWE'S	4.75		Not Required For Provisioning Of Service
351	575998	16	299319	DON BREEDING	THE OLIVE GARD	34.03		Not Required For Provisioning Of Service
352	575998	16	299335	DON BREEDING	GRILL AT RYAN RANCH	66.43		Not Required For Provisioning Of Service
353	575998	16	299341	DON BREEDING	7-ELEVEN	6.19		Not Required For Provisioning Of Service
354	575998	16	299344	DON BREEDING	BLUE FIN BILLIARDS	20.00		Not Required For Provisioning Of Service
355	575998	16	299348	DON BREEDING	MONTEREY JACKS FISH HO	49.33		Not Required For Provisioning Of Service
356	575998	16	299352	DON BREEDING	QUIZNOS SUBS	13.36		Not Required For Provisioning Of Service
357	575998	16	299361	DON BREEDING	SKY HARBOR AIRPORT T	80.00		Not Required For Provisioning Of Service
358	575998	16	299365	DON BREEDING	BEST WESTERN DE ANZA I	259.60		Not Required For Provisioning Of Service
359	575998	16	299370	DON BREEDING	LA BOHEME RESTAURANT	166.72		Not Required For Provisioning Of Service
360	575998	16	299408	TIM FRIDAY	LA QUINTA HOTEL	89.29		Not Required For Provisioning Of Service
361	575998	16	299409	TIM FRIDAY	LA QUINTA HOTEL	89.29		Not Required For Provisioning Of Service
362	575998	16	299440	DON BREEDING	JOHN ASCUAGA'S NUGGET	13.70		Not Required For Provisioning Of Service

RUCO ADJUSTMENT TO MISCELLANEOUS CORPORATE EXPENSES - CONT'D

LINE NO.	(A) ACCOUNT NO.	(B) INVOICE NO.	(C) INVOICE NO.	(D)	(E) ACCOUNT DESCRIPTION	(F) RUCO ADJUSTMENT	(G) RUCO ADJUSTMENT	(H) RUCO EXPLANATION
363	TOTAL							\$ 9,642
319	GRAND TOTAL OF RUCO'S ADJUSTMENT							<u>\$ 224,545</u>

References:
Columns (A) Thru (F): Company's Response To RUCO Data Request 7.04.b.
Column (G): Sum Of Column (F)
Column (H): RUCO's Explanation For Denying Expense

EXPLANATION OF OPERATING INCOME ADJUSTMENT NO. 16
INCOME TAX EXPENSE

(A)

LINE NO.	DESCRIPTION	REFERENCE	AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	RLM-2, Col. (C), L38 + L35	\$ 1,467,636
LESS:			
2	Arizona State Tax	Line 11	(76,216)
3	Interest Expense	Note (A) Line 19	(373,834)
4	Federal Taxable Income	Line 1 + Line 2 + Line 3	\$ 1,017,585
5	Federal Tax Rate	RLM-1, Page 2, Col.(A), L 9	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 345,979
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 1,467,636
LESS:			
8	Interest Expense	Note (A) Line 19	(373,834)
9	State Taxable Income	Line 7 + Line 8	\$ 1,093,801
10	State Tax Rate	Tax Rate	6.97%
11	State Income Tax Expense	Line 9 X Line 10	\$ 76,216
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 345,979
13	State Income Tax Expense	Line 11	76,216
14	Total Income Tax Expense Per RUCO	Line 12 + Line 13	\$ 422,195
15	Total Income Tax Expense Per Company (Per Company Sch. C-1)		215,705
16	RUCO Adjustment (See RLM-3, Page 4, Column (P), Line 35)	Line 14 - Line 15	\$ 206,490

NOTE (A):

Interest Synchronization:			
17	Adjusted Rate Base	RLM-1, Page 1, Col. (F), L1	\$ 10,898,953
18	Weighted Cost Of Debt	WAR-1, Col. (F), L1 + L2	3.43%
19	Interest Expense	Line 17 X Line 18	\$ 373,834

ARIZONA AMERICAN WATER COMPANY, INC.
(PARADISE VALLEY WATER DISTRICT)

DOCKET NO. W-01303A-05-0405

DIRECT TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 17, 2006

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INTRODUCTION

Q. Please state your name and business address.

A. My name is Timothy J. Coley. My business address is 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. By whom are you employed and in what capacity?

A. I am employed by the Residential Utility Consumer Office ("RUCO") as a Public Utilities Analyst.

Q. Please state your educational background and qualifications in utility regulation.

A. I have a Masters Degree in Public Administration and Bachelor of Science Degree in Business Management and Administration. I am currently completing my Post-Baccalaureate Certificate in Accountancy at Arizona State University – West. My regulatory utility experience includes eleven combined years in various utility auditing and rate analyst positions with RUCO and the Georgia Public Service Commission. I have been employed at RUCO since 2000.

Q. Have you previously testified in rate proceedings before the Arizona Corporation Commission ("ACC")?

A. Yes. I have previously presented testimony regarding revenue requirements in rate case proceedings before the ACC.

1 Q. Please state the purpose of your testimony.

2 A. The purpose of my testimony is to present findings and recommendations
3 resulting from my analysis and review of Arizona-American Water Company, Inc.
4 (hereafter referred to as "AZ-AM", or "Company") Rate Application for a
5 permanent rate increase in the Company's Paradise Valley ("PV") Water District.
6 The PV District provides water service within portions of the Town of Paradise
7 Valley, the City of Scottsdale, and certain unincorporated areas within Maricopa
8 County, Arizona. During the test year ("TY") ended December 10, 2004, the
9 Company provided water service to approximately 4,600 customers.

10
11 I will sponsor the rate base items and rate design pertaining to the PV Water
12 District. RUCO witness Rodney L. Moore will present RUCO's recommended
13 operating expenses in his testimony. Mr. Moore's testimony also addresses the
14 Arsenic Cost Recovery Mechanism ("ACRM") that the Company is requesting in
15 this proceeding. Ms. Diaz Cortez discusses the Public Safety ("PS") surcharge
16 and High Block usage surcharges as proposed by the Company in this docket.
17 RUCO witness William A. Rigsby is sponsoring RUCO's recommended cost of
18 capital and capital structure issues.

19
20 Q. Please describe your participation and work effort on this project.

21 A. I performed the following procedures to determine whether sufficient, relevant,
22 and reliable evidence exists to support the financial data and claims in the
23 Company's application, reviewed and analyzed the Company's application and

1 supporting work papers, reviewed all other intervenors' data requests, prepared
2 written data requests and evaluated the Company's responses, reviewed annual
3 reports and prior Commission decisions regarding AZ-AM PV Water District.
4

5 In addition, Mr. Moore and I conducted an onsite field audit inspection of the
6 Company's PV water system. The onsite audit required a half-day visual
7 inspection. The respective System Managers accompanied Mr. Moore and
8 myself during the onsite visit, which provided valuable insight into the Company's
9 construction of its Arsenic plant and overall operations.
10

11 Ms. Diaz Cortez, RUCO legal counsel Mr. Dan Pozefsky, and I attended several
12 Town Council meetings that specifically addressed water issues in the Town of
13 Paradise Valley.
14

15 Q. Please identify the exhibits and schedules that you are sponsoring.

16 A. My testimony is composed of separate Schedules TJC-1 through TJC-9.
17

18 Q. Does your silence on any issues or matters pertaining to the Company's
19 application constitute RUCO's acceptance of the Company's position?

20 A. No.
21
22
23

THE TEST YEAR

Q. Did the Company use a "strict" historical test-year?

A. Yes. The Company chose a test year ending December 10, 2004 ("Test Year"). However, the Company has requested several post-test-year plant additions to be recovered through specific surcharges at future dates, specifically Public Safety additions, arsenic plant, and a high-block usage surcharge, which is discussed in detail by Ms. Diaz Cortez and Mr. Moore.

Q. Does RUCO agree with the Company's chosen historical Test Year?

A. Yes. RUCO has consistently supported the Commission's position that the most "recent" known and measurable historical Test Year should be the test year selected for rate applications when setting rates. This approach conforms to the accounting framework established by the Commission's Rules and regulatory principles. AZ-AM's selection of a 2004 test year in this case utilizes the most current known and measurable Test Year numbers available.

SUMMARY

Q. Please summarize the recommendations and adjustments you cite in your testimony.

A. The following recommended adjustments summarize my testimony:

Rate Base Adjustments:

Property Held For Future Use ("PHFFU") – This adjustment removes plant from Utility Plant in Service ("UPIS") that is not in service, and therefore, it is not used and useful.

Gain on Sale of Land – This adjustment removes 50% (ratepayers share of gain) of the gain from the sale of land and reduces rate base accordingly. RUCO recommends the ratepayers' share of gain be treated as a deferred liability and placed in an appropriate account that does not earn a return for the shareholders.

Capitalized Expenses – This adjustment increases rate base by \$10,495. See RUCO witness, Mr. Moore's testimony, for a detailed explanation regarding this adjustment.

Allowance for Working Capital – This adjustment recalculates working capital based on RUCO's recommended operating expenses and corrections in the Company's lead/lag days.

Rate Design:

RUCO is recommending the same rate design that currently exists and approved by the Commission in Decision No. 61307, dated on December 31, 1998. The rate design consists of a three-tier rate design for the residential customers and two tiers for the commercial customers.

RATE BASE:

Rate Base Adjustment #1 – Property Held for Future Use

Q. Did AZ-AM Water include PV's "Property Held for Future Use" ("PHFFU") in rate base in this current rate application?

A. Yes. The Company included three items of plant charged to the PHFFU account.

Q. What three plant items from PHFFU did the Company include in rate base?

A. The Company included two submersible pumps & motors and one transformer in Utility Plant In Service ("UPIS") that totaled \$138,682.

Q. Does RUCO agree that PHFFU should be included in UPIS and thus in rate base?

A. No. RUCO has consistently disallowed PHFFU in UPIS.

Q. What reason(s) compel RUCO to disallow PHFFU?

A. It is sound policy under the general accounting ratemaking standards and procedures to disallow plant that is not used and useful in providing utility service to ratepayers. PHFFU is clearly not used or useful in serving current ratepayers.

Q. What adjustment did RUCO make to disallow PHFFU?

A. RUCO disallowed the full \$138,682 from UPIS and thus rate base.

Rate Base Adjustment #2 – Gain on Sale of Land

Q. Please explain the purpose of the “Gain on Sale of Land” adjustment.

A. The Company proposes to share the “gain” recognized on the sale of one piece of property 50/50 with ratepayers. AZ-AM’s treatment of the net gain attributable to the ratepayers is to provide dollar for dollar recovery of the gain via a monthly surcredit to ratepayers’ bills over five years. To arrive at the net gain to be shared with ratepayers, the Company has proposed that the ratepayers’ share of the gain be an after-tax amount.

Q. Does RUCO agree with the 50/50 sharing with ratepayers over five years as proposed by the Company?

A. RUCO agrees with the Company’s proposal to share the gain with the ratepayers 50/50, but RUCO does not agree with the Company’s method or treatment of the ratepayers’ 50% share of the gain.

Q. Please explain why RUCO does not agree with the Company’s method and treatment of the ratepayers’ share of the gain on sale of land.

A. First, RUCO believes the gain should be shared with the ratepayers on a before-tax basis because rates are designed to account for the taxes. The Company’s proposed method of sharing the gain on an after-tax method would result in double taxation. See RUCO witness Mr. Moore’s direct testimony for a complete discussion concerning RUCO’s rationale.

1 Second, RUCO does not agree with the Company's surcredit treatment of the
2 ratepayers' share of the gain. While a surcredit will provide dollar for dollar
3 recovery of the gain, it does not compensate ratepayers for the time value of
4 money.

5
6 Q. What treatment does RUCO recommend for the ratepayers' share of the gain on
7 sale of property?

8 A. RUCO recommends that share of the gain attributable to the ratepayers be
9 placed into a deferred liability account on a before-tax basis and amortized back
10 to the ratepayers over a five year period. Further, RUCO recommends that the
11 deferred liability reduce rate base. This treatment recognizes that the Company
12 will have use of ratepayers' funds, which in essence is cost-free capital that
13 should not earn a return. This adjustment reduces expenses by \$78,450 and
14 reduces rate base by \$392,248.

15
16 **Rate Base Adjustment #3 – Capitalized Expenses**

17 Q. Please explain the purpose of the capitalized expenses adjustment.

18 A. This adjustment capitalizes certain expenses identified in Mr. Moore's analysis.
19 For a thorough discussion concerning this adjustment, please see Mr. Moore's
20 discussion in his testimony. The adjustment reduces income statement
21 expenses and increases rate base by \$10,495.

Rate Base Adjustment #4 – Working Capital

Q. What amount of working capital is the Company requesting?

A. The Company is requesting working capital in the amount of \$350,946.

Q. How did the Company determine the requested amount of working capital?

A. The Company determined its working capital request utilizing a lead/lag study.

Q. Please explain the concept of working capital?

A. A company's working capital requirement represents the amount of cash the company must have on hand to cover any differences in the time period between when revenues are received and expenses must be paid. The most accurate way to measure the working capital requirement is via a lead/lag study. The lead/lag study measures the actual lead and lag days attributable to the individual revenues and expenses.

Q. Are you proposing any adjustment to the Company-proposed working capital?

A. Yes. An adjustment is necessary to restate the working capital requirement based on my recommended level of operating expenses, correction to certain lead/lag days, and inclusion of interest expense. These adjustments are shown on Schedule TJC-5, page 1 – 6, and decrease the amount of working capital by \$231,827.

Reconcile Lead/Lag Study and Company's Schedule C-2 in Rate Application

Q. Referring to Schedule TJC-5, page 3 of 6, please explain the adjustments to working capital in Column (A), (B), and (C).

A. Column (A) is essentially a reproduction of the Company's Schedule B-5 – Lead/Lag Study – Column [B], which is part of the Company's work papers. All the expenses in the Company's Schedule B-5 did not correspond with what the Company filed in its rate application on Schedule C-2. The adjustments on Schedule TJC-5, page 3 of 6, Column (B), were necessary to reconcile the Company's lead/lag study with the expenses on C-2 rate application. Column (C) on Schedule TJC-5, page 3 of 6, is RUCO's adjustments to the expense accounts. See RUCO witness Mr. Moore's direct testimony for a discussion regarding these adjustments.

Q. What portion of RUCO's adjustment to cash working capital is attributable to reconciling the Company's lead/lag study expenses to the Company's Schedule C-2 rate application schedule?

A. This portion of RUCO's adjustment reduced cash working capital by \$6,895.

RUCO's Expense Adjustments

Q. What adjustment was necessary to account for RUCO's witness Mr. Moore's expense adjustments in Schedule RLM-3, page 1 through 4?

A. Mr. Moore's expense adjustments reduced cash working capital by \$12,587.

Other Working Capital Adjustments

Q. Please explain the purpose of the adjustments RUCO recommends to working capital proposed by the Company.

A. This adjustment consists of two parts. One part is associated with the Mummy Mountain acquisition adjustment allowed in Commission Decision No. 61307. This adjustment increases working capital and thus rate base by \$7,774. The second part of the adjustment is related to corrections RUCO recommends to various revenue and expense lead/lag days as proposed by the Company's lead/lag study. The final element to the working capital adjustment is the inclusion of interest expense in determining cash working capital.

Q. Please discuss RUCO's rationale that led to each adjustment to working capital beginning with the Mummy Mountain acquisition adjustment mentioned above.

A. The Mummy Mountain acquisition adjustment was authorized in Commission Decision No. 61307. The acquisition adjustment allowed the Company recognition and recovery of costs the Company incurred in acquiring the Mummy Mountain water system in 1999.

The Commission authorized AZ-AM to recover certain costs associated with the acquisition of Mummy Mountain water infrastructure over 25 years. AZ-AM has been amortizing the acquisition costs over 20 years rather than the 25 years as approved in Decision No. 61307. RUCO's adjustment increases the Company's working capital and thus rate base by \$7,774.

RUCO Adjustments to Lag Days

Q. Please explain RUCO's adjustments to the Company's lead/lag days in its Lead/Lag Day study.

A. After analyzing the Company's lead/lag study, RUCO found necessary adjustments to three areas of the Company's study shown in the Company's work papers titled "Lead/Lag Study, Schedule B-5," page 148. Specifically, RUCO adjusted the Company's lead/lag days for 1) interest expense lag, 2) revenue lag, and 3) property tax expense lag days. These three adjustments result in a change to the Company proposed net lag days. As shown on RUCO Schedule TJC-5, page 3 of 6, these adjustments result in a net decrease in lag days from the Company's proposed 16.8 days to a negative 7.1¹ days.

Inclusion of Interest Expense to Working Capital Allowance

Q. Discuss RUCO's first adjustment to interest expense lag that affects working capital.

A. The Company simply did not include the interest expense in its calculation for the lead/lag study. It is appropriate to include interest expense in the lead/lag calculations since ratepayers compensate the Company for interest expense via cost of capital. Through RUCO data requests 1.9, 1.32, 2.12, update to 2.12 dated December 1, 2005, 9.8, and Staff 3.3, RUCO obtained the terms, payment dates, and payment amounts on the debt instruments. That information provided RUCO with the elements necessary to construct a lead/lag study. As shown on

¹ A net negative lag is indicative of a situation where the receipt of revenues precedes the payment of expenses.

1 Schedule TJC-5, page 4 of 6, line 11, the interest expense lag days equated to
2 107.20 days.

3
4 Q. Referring to Schedule TJC-5, page 3 of 6, lines 23, titled "Interest," please
5 explain the figures and calculations pertaining to line 23.

6 A. Referring to the above referenced schedule, the first number, \$375,896, on line
7 23, is the synchronized interest amount found on Schedule RLM-13. The second
8 figure is the same \$375,896 found in Column (C), line 23 because the Company
9 failed to include any interest expense in its lead/lag calculation study. Column
10 (F), line 23, the "Dollar Days," is the \$375,896 (synchronized interest) multiplied
11 by 107.20 lag days calculated on TJC-5, page 4 of 6.

12
13 Q. What is the necessary amount to adjust for RUCO's inclusion of interest expense
14 for working capital?

15 A. This adjustment reduces the Company's cash working capital by \$55,721.

16
17 Revenue Lead/Lag Days Correction

18 Q. Please discuss RUCO's adjustment to the Company's revenue lag days.

19 A. The Company calculated 52.8 lag days associated with the amount of time
20 between when the meter is read and when the Company receives payment for
21 the water service. RUCO performed a revenue lead/lag analysis for the PV
22 system and determined an adjustment was necessary to restate PV's revenue
23 lag to 38.30 days.

1 Q. What method and/or analysis did RUCO perform in determining its
2 recommended 38.30 revenue lag days?

3 A. In RUCO data request 8.3, twenty of PV's copies of actual bills were requested
4 for various meter sizes and customer classifications. By utilizing this sample of
5 bills, RUCO was able to ascertain the service period, therefore the mid-point
6 service period was established, and the bill date, which establishes the billing lag
7 days. The pay lag is determined by adding the number of days from the bill date
8 to the due date. The total revenue lag days are the sum of the 1) mid-point
9 service period, 2) billing lag days, and 3) pay lag days. These calculations are
10 shown on TJC-5, page 5 of 6. The "**AVERAGES**" are the total sum of the
11 respective columns divided by the 20-bill sample size, which equals 38.30 days.
12

13 Q. To what reason(s) does RUCO attribute the difference in the Company's and
14 RUCO's calculated revenue lag days?

15 A. There are a number of reasons the two calculations differ. First, the Company
16 uses a calculation that takes all the AZ-AM water systems in consideration,
17 whereas, RUCO's calculation isolates the PV system with actual bills. The
18 Company calculates service lag days that equal 13.8 days, which represents the
19 equivalent of RUCO's Schedule TJC-5, page 5 of 6, Column (C) mid-point
20 service period average of 15.10 days. Secondly, AZ-AM uses a Company wide
21 approach in determining its billing lag days of 8.7 days where RUCO uses
22 specific PV bills that averages 3.05 billing lag days. The Company uses the total
23 of AZ-AM average daily balance of accounts receivable divided by average daily

1 revenue, which equals a payment lag of 30.3 days. When RUCO uses the more
2 precise method by isolating the PV water district, the payment lag is 20.15 when
3 using PV's actual bill sample. The total revenue lag difference is 14.5 days with
4 RUCO recommending 38.30 revenue lag days rather than the Company's less
5 accurate total AZ-AM Water Company approach of 52.8 revenue lag days.

6
7 Q. Did RUCO request the information from PV to replicate the Company's
8 methodology of calculating the total revenue lag days that would be specific only
9 to the PV system?

10 A. Yes. In RUCO 2.8, the data was requested for the accounts receivables for PV
11 only. In response to the request, AZ-AM stated that, "The daily account
12 receivable balances are not available by District. The Company's accounts
13 receivable balances are kept in total."

14
15 Q. Did RUCO compare other Arizona utilities to determine the reasonableness of
16 the Company's proposed total revenue lag days as filed?

17 A. Yes. I reviewed Arizona Water Company's Western Group lead/lag study
18 (Commission Decision No. 68302), the recent Southwest Gas rate filing, and
19 Arizona Public Service's ("APS") rate application to make comparisons with what
20 AZ-AM filed in this case. Arizona Water Company's Western Group consisted of
21 five separate water systems. Each system was calculated independently with
22 revenue lags ranging from 27.56 to 29.24 for an overall average of 27.80
23 revenue lag days (Commission Decision No. 68302 approved these lag days).

1 Southwest Gas and APS's lead/lag studies resulted in revenue lags of 40.62 and
2 41.81 days respectively.

3
4 Since RUCO's revenue lead/lag study uses PV actual billing cycle and isolates
5 the PV system as opposed to the overall AZ-AM accounts receivables approach,
6 RUCO recommends a 38.30 revenue lag days. This accurately reflects the PV
7 system cash working capital needs, which results in a reduction to cash working
8 capital of \$144,904.

9
10 Property Tax Lead/Lag Days Correction

11 Q. Please explain the adjustment RUCO made to the Company's property tax
12 expense lead/lag days.

13 A. This adjustment was necessary to correct the lead/lag days the Company
14 calculated for property tax expense.

15
16 Q. How did the Company calculate the lag days for property tax expense?

17 A. First, the Company uses two mid-point service periods of 1) July 1 to December
18 31 and 2) January 1 to June 30. The Company then calculates the lead/lag days
19 associated with the two semi-annual payments from each mid-service period to
20 the date of the payments.

1 Q. Does RUCO agree with the Company's methodology used when calculating its
2 property tax expense lag days?

3 A. Not entirely.
4

5 Q. Please explain RUCO's difference of opinion with the Company concerning the
6 method it used when calculating the property tax expense lag days.

7 A. The lag days for Arizona property taxes should be based on a calendar year
8 using the midpoint of July 1 because the service period is the calendar year.
9 One-half of the property tax in a given calendar year must be paid on November
10 1st of the current tax year, and one-half must be paid on May 1st of the following
11 year in Arizona. However, the Company's method of utilizing two service periods
12 rather than RUCO's preferred one calendar year does not affect the lead/lag
13 days' calculation.
14

15 What does affect the Company's lag days' calculation for property taxes is AZ-
16 AM is using the date it actually made payment as opposed to the date before the
17 taxes become delinquent. The Company's use of calculating from the midpoint
18 of the service period to the payment date reduces the lag days and thereby
19 artificially increases the need for cash working capital. The Commission should
20 not allow this. Every Arizona company, public or private, and individual is
21 required to pay Arizona property tax on the same basis and dates. There are no
22 deviations between any for-profit company and/or individual.
23

Q. What adjustment is necessary to correct the lag days associated with the Company's property tax lag day calculation?

A. RUCO recommends the use of 213.50 lag days² rather than the Company's 175.50 days. This adjustment results in a reduction to cash working capital in the amount of \$22,176. In Commission Decision No. 68302, Arizona Water Company, utilized 212 lag days for property tax expense. Southwest Gas and APS used 211 lag days and 213 respectively in recent filed rate cases with the Commission.

Q. What was RUCO's total adjustment to working capital taking all the elements into consideration as discussed above?

A. RUCO's total adjustments to working capital are as follows:

<u>Working Capital Adjustments</u>	<u>Amount</u>
1) Reconcile Co. Lead/Lag Study to Co. Sch. C-2	(\$6,819)
2) RUCO's Expense Adjustments	(\$12,448)
3) Mummy Mountain Acquisition Adjustment	\$7,774
4) Interest Expense Adjustment	(\$55,101)
5) Revenue Lag Days Adjustment	(\$143,302)
6) Property Tax Lag Days Adjustment	<u>(\$21,931)</u>
RUCO's Total Working Capital Adjustments	(\$231,827)

² This number will vary insignificantly depending on the midpoint utilized (i.e., June 30th or July 1st) and due dates employed (i.e., April 30th or May 1st). The range should be 211 – 213.5.

RATE DESIGN

Q. Have you prepared schedules showing your recommended monthly minimum and commodity rates?

A. Yes.

Q. How did you design your rates?

A. My rate design is shown on Schedule TJC-6, pages 1 through 9. Those schedules reflect RUCO's recommended 8.72 percent overall rate decrease. Other than the decrease, RUCO recommends that the present rate structure remain intact with the exception of Mummy Mountain. I consolidated the residential Mummy Mountain customers with the PV residential customers to create a uniform rate design for all residential customers in PV's water district.

Q. Why was it necessary to consolidate Mummy Mountain and PV residential customers?

A. Mummy Mountain was acquired by AZ-AM in 1999 and had a separate rate structure than the PV residential customers. The Commission ordered that current rates for Mummy Mountain would remain the same as before the acquisition took place until PV operated it for at least one full year. This would allow a full year of operating revenues and expenses to be reviewed before consolidating the rates. This is the first rate case for PV since a full year of operating results has elapsed. This is the proper time and proceeding to address a uniform rate design for Mummy Mountain and PV residential customers.

1 Q. Please discuss the elements of RUCO's rate design that it maintains should
2 remain intact as in the Company's present rate design.

3 A. RUCO's rate design focuses on conservation. RUCO's rate design is virtually a
4 mirror image of what the Company presently has and what the Company has
5 proposed with the lone exception of the rate decrease recommended by RUCO.

6
7 RUCO agrees with the Company's tiered rate design. The Company's present
8 and proposed rate design includes a three-tier inverted rate design for residential
9 customers and a two-tier inverted rate design for commercial customers. RUCO
10 concurs with the Company that break over points should be 25,000 gallons at tier
11 two and 80,000 gallons at tier three for residential customers. The Company's
12 present and proposed rate designs for commercial customers have a break over
13 point at 400,000 gallons at tier two, and RUCO's rate design maintains the same
14 break over point for commercial customers. Both RUCO and the Company have
15 eliminated the 1,000 "free" gallons in Mummy Mountain rates.

16
17 RUCO recommends a commodity ratio of 2.0 for residential customers between
18 tier two to tier one rates. The Company's present rates reflect a 2.22 ratio
19 between the same two tiers. The only reason for that negligible difference is
20 RUCO did not want to lower tier one more than the recommended 72 cent level.
21 The wrong signal could be perceived as pricing the first tier below cost if RUCO
22 widened the gap between tier one and two any more. The ratio between tier
23 three to one rates in RUCO's rate design for residential customers is 2.8. The

1 third tier is where RUCO believes a stronger price signal can be sent to achieve
2 greater conservation. Likewise, the Company's proposed ratio between
3 residential tier three to one rates is 2.88.

4
5 For commercial customers, RUCO recommends the same 29-cent difference as
6 in the Company's present rates between tier one to tier two rates for the
7 commodity charge. As confirmed, RUCO's rate design parallels the Company's
8 with the exception that RUCO recommends an 8.72 percent rate decrease.

9
10 Q. Please discuss the last element of rate design, monthly minimums, that RUCO
11 recommends.

12 A. The monthly minimums that RUCO recommends are on Schedule TJC-6, pages
13 1 through 9. All customer classifications pay the same monthly minimum based
14 on meter size. RUCO recommends a reduction in all monthly minimums (i.e., 5/8
15 X 3/4 Inch Meter is 41-cents less) with the one exception occurring in Mummy
16 Mountain.

17
18 Q. Why does Mummy Mountain experience an increase in monthly minimums while
19 all other customer classifications experience a decrease?

20 A. As discussed earlier in my testimony, Mummy Mountain had separate rates than
21 other PV customers before and after AZ-AM's acquisition of the Mummy
22 Mountain system in 1999. Mummy Mountain's monthly minimum rates were not
23 based on the generally accepted ratemaking concept of the NARUC multiplier,

1 which increases the monthly cost, as the meters get larger. However, Mummy
2 Mountain's 5/8 X 3/4 Inch meter size did experience a monthly minimum
3 decrease of \$1.00 under RUCO's rate design. Since the larger meters were not
4 based on the NARUC multipliers, the larger meters had an increase in monthly
5 minimum charges.

6
7 Q. Briefly explain the NARUC multiplier that caused Mummy Mountain customers to
8 experience a monthly minimum increase while all other customers received a
9 decrease under RUCO's rate design.

10 A. The NARUC multiplier simply increases monthly minimum meter charges by a
11 ratio, as the meter's size becomes larger. The ratio is closely interrelated to the
12 water capacity the meter is capable of providing.

13
14 Q. Please summarize RUCO's rate design?

15 A. RUCO's rate design primarily generates the following four results:

- 16 1. It is designed to encourage conservation.
- 17 2. Inverted tiered rates are utilized.
- 18 3. Equivalent to the Company's rate design.
- 19 4. Maintains the same ratio between the Company's present monthly
20 minimum and commodity charges (See Attachment 1).

1 Q. Does this conclude your direct testimony?

2 A. Yes.

APPENDIX 1

APPENDIX 1

Qualifications of Timothy J. Coley

WORK HISTORY

July 2000 – Present: **RESIDENTIAL UTILITY CONSUMER OFFICE**, Phoenix, Arizona
Public Utilities Analyst V. The Residential Utility Consumer Office (RUCO) is a consumer advocate group providing residential consumers a voice in utility regulation and backed by a professional staff with legal and financial expertise. Responsibilities include: audited, reviewed and analyzed public utility companies various filings; prepared written testimony, schedules, financial statements, and spreadsheet models and analyses. Testified and stand cross-examination before the Arizona Corporation Commission.

January 2000 - April 2000: **JACKSON HEWITT TAX SERVICE**, Phoenix, Arizona
Tax Preparer. Interviewed clients, determined tax situation, and explained how the tax laws benefited them in their specific situation. Ensured that each customer received every deduction that they were entitled. Prepared individual and business income tax returns, which best utilized each specific situation that minimized their tax obligations.

May 1998 - November 1999: **BENEFITS CONSULTING**, Cypress, Texas
Consultant Assistant. The consulting firm specialized in alleged medical claim charges brought against the government of Harris County in Houston, Texas. Assisted in the review, examination, and analysis of the attested charges. Determined if the purported medical claim charges were prudent, customary, and reasonable for the alleged sustained injuries. The firm analyzed cases for both the County's Risk Department and Attorneys Office.

January 1992 - April 1998: **PHOENIX SERVICES**, Villa Rica, Georgia
Owner. Provided landscaping services primarily in a high growth gated community where the Property Owners' Association approved mandated ordinances to be strictly adhered and abided by. Coordinated and supervised all aspects of projects from inception to completion, from master planning to site design to installation.

May 1989 - October 1991: **GEORGIA PUBLIC SERVICE COMMISSION**, Atlanta, GA
Senior Auditor. The Public Service Commission (PSC) was responsible for regulating many intrastate telecommunications, electric, and gas utility industries operating in Georgia. It was the PSC's job to ensure that consumers received adequate and reliable service at reasonable rates. It must also assure the utility companies and investors an opportunity to earn a fair rate of return on prudent investments. The Commission participated significantly in Georgia's economic health and growth. I was promoted to the PSC's Electric/Gas Division where I examined, verified, and analyzed various financial documents, accounting records, reports, ledgers, and statements. In addition, I was assigned to automate the PSC's Electric Division where I utilized a computer application process that I had developed earlier while with the (PSC) Telecommunication Division. I was later ascribed to work in conjunction with the Engineering Department and established a procedure to track and compare costs of operation and maintenance (O&M) expenses of nuclear electric generating plants. This effort determined a comparative price per kilowatt-hour produced that influenced the awareness for the company to control the O&M costs, which benefited the consumer through lower prices.

- Developed computer application system that streamlined audit procedures by 30 – 40%.
- Various other schedules were implemented to track, maintain, and control costs.

GEORGIA PUBLIC SERVICE COMMISSION (continued)

November 1986 - April 1989: **Georgia Public Service Commission**, Atlanta, Georgia **Auditor**. Regulated telecommunications and also oversaw the deregulation process that was currently under way in that industry. Examined and analyzed accounting records to determine financial status of companies and prepared financial reports concerning audit findings. Reviewed data including payroll, time sheets, purchase vouchers, cash receipt ledgers, financial reports, and disbursements. Verified statewide telephone company transaction classifications and documentation.

- Developed computer application utilizing Lotus to completely automate and streamline the entire telecommunication audit process. The results saved 25% in field audit time and produced a product of professional appearance.
- Created, coordinated, and implemented "Operational Project Training" automated procedure-training program. Trained and supervised staff of five auditors.
- Computerized "Desk Audit Analysis" program that identified 11 independent telephone companies in the state of over-earning and resulted in \$4.1M annual savings to the Georgia ratepayers affected.

October 1985 - October 1986: **Georgia Public Service Commission**, Atlanta, Georgia **Junior Auditor**. Assisted in planning and performing telecommunication audit engagements. Examined financial records, internal management control, correspondence, bills, and records of services delivered in order to verify or recommend compliance with company specifications contained in contracts, agreements, regulations, and/or laws.

- As a special project, I was assigned to analyze the results of a survey designed to evaluate "Interest in Organizing a Multi-State Nuclear Management Review Group" by the Director of Utilities. Wrote the draft and findings for the speech that was presented to all participatory commissions.

PROFESSIONAL MEMBERSHIPS

- Elected Member of the National Honor Society for Public Affairs and Administration.
- Active Member of Delta Sigma Pi - Professional Business Fraternity.

SPECIAL TRAINING AND CERTIFICATES

- The Graduate School of Business Administration - Michigan State University; completed the Annual Regulatory Studies Program of the National Association of Regulatory Utility Commissioners.
- Completed Graduate Exit Paper on "Deregulation of the Electric Industry".
- Attended Eastern Utility Rate School in 2000 and 2005.

EDUCATION

- Currently enrolled at Arizona State University - West in the Post Baccalaureate Graduate Certificate Program in Accountancy with two courses remaining.
- Master of Public Administration, State University of West Georgia, 1997, GPA 3.5.
- BS Business Management & Administration, Minor in Economics, Sorrel School of Business, Troy State University, 1985.
- AA Business Administration, Miles Community College, 1981.

RESUME OF PUBLIC UTILITY RATE CASES & AUDITS PARTICIPATION

Residential Utility Consumer Office For Years 2000 To Present

Arizona-American Water Company – Docket No. WS-01303A-05-0405

Arizona Public Service Co. – Docket No. E-01345A-03-0437

Tucson Electric Power Company – E-01933A-04-0408

UniSource Merger – Docket No. E-04230A-03-0933

Arizona-American Water Company – Docket No. WS-01303A-02-0867

Arizona Water Company (Eastern Group) – Docket No. W01445A-02-0619

Litchfield Park Service Company – Docket No. W-01427A-01-0487
SW-01428A-01-0487

Arizona Water Company (Northern Group) – Docket No. W-01445A-00-0962

Rio Verde Utilities, Inc. – Docket No. W-02156A-00-0321
SW-02156A-00-0323

Georgia Public Service Commission For Years 1985 – 1991

Atlanta Gas Light Company

Georgia Power Company

Atlanta Gas Light Company (Management Audit)

Georgia Power Company

Trenton Telephone Company

Fairmount Telephone Company

Ellijay Telephone Company

GTE, Inc.

ALL-TEL Telephone Company

Citizens Utilities Co.

Ball Ground Telephone Company

Lanett Telephone Company

Brantley Telephone Company

Blue Ridge Telephone Company

Waverly Hall Telephone Company

St. Marys Telephone Company

Darien Telephone Company

Statesboro Telephone Company

Statesboro Telephone Co-op

Wilkes Telephone Company

ATTACHMENT 1

ATTACHMENT 1
PERCENTAGE MONTHLY MINIMUM / COMMODITY CHARGES TO TOTAL REVENUE

LINE NO.	CUSTOMER CLASSIFICATIONS	COMPANY'S PRESENT RATES	COMPANY'S PROPOSED RATES	RUCO'S RECOMMENDED RATES
1	PARADISE VALLEY RESIDENTIAL CUSTOMERS:			
2	Monthly Minimum Charges	16.64%	17.33%	17.20%
3	Commodity Charges	83.36%	82.67%	82.80%
4	MUMMY MOUNTAIN RESIDENTIAL CUSTOMERS			
5	Monthly Minimum Charges	7.48%	12.91%	12.65%
6	Commodity Charges	92.52%	87.09%	87.35%
7	PARADISE VALLEY COMMERCIAL CUSTOMERS			
8	Monthly Minimum Charges	11.61%	11.84%	11.75%
9	Commodity Charges	88.39%	88.16%	88.25%
10	PARADISE VALLEY TURF CUSTOMERS			
11	Monthly Minimum Charges	2.51%	2.48%	2.54%
12	Commodity Charges	97.49%	97.52%	97.46%
13	PARADISE VALLEY COUNTRY CLUB			
14	Monthly Minimum Charges	100.00%	100.00%	100.00%
15	Commodity Charges	0.00%	0.00%	0.00%
16	PARADISE VALLEY OTHER METERED SERVICE			
17	Monthly Minimum Charges	33.59%	33.47%	34.46%
18	Commodity Charges	66.41%	66.53%	65.54%
19	PARADISE VALLEY FIRE HYDRANT			
20	Monthly Minimum Charges	100.00%	100.00%	100.00%
21	Commodity Charges	0.00%	0.00%	0.00%
22	PARADISE VALLEY IRRIGATION			
23	Monthly Minimum Charges	100.00%	100.00%	100.00%
24	Commodity Charges	0.00%	0.00%	0.00%
25	SALES FOR RESALE			
26	Monthly Minimum Charges	32.56%	32.45%	33.87%
27	Commodity Charges	67.44%	67.55%	66.13%
28	TOTAL PERCENTAGES			
29	Monthly Minimum Charges To Total Revenue	17.99%	18.51%	18.58%
30	Commodity Charges To Total Revenue	82.01%	81.49%	81.42%

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
DOCKET NO. W-01303A-05-0405
TABLE OF CONTENTS FOR SCHEDULES TJC

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TJC-2	RATE BASE ADJUSTMENTS
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TJC-5	RATE BASE ADJUSTMENT #4 - WORKING CAPITAL ADJUSTMENT
TJC-6	RECOMMENDED RATES
TJC-7	MONTHLY MINIMUM CHARGES
TJC-8	BILLING ANALYSIS
TJC-9	REVENUE SUMMARY BY METER SIZE & CUSTOMER CLASS

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 RATE BASE

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-1

LINE NO.	DESCRIPTION	(A) COMPANY PROFORMA	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED
1	GROSS UTILITY PLANT IN SERVICE	\$ 29,478,687	\$ (128,187)	\$ 29,350,500
2	NET REG. ASSET - AFUDC DEBT	950	-	950
3	CONSTRUCTION WORK IN PROGRESS	-	-	-
4	LESS: ACCUMULATED DEPRECIATION	9,913,869	-	9,913,869
5	NET UTILITY PLANT IN SERVICE	\$ 19,565,768	\$ (128,187)	\$ 19,437,581
	LESS:			
6	CUSTOMERS' ADVANCES FOR CONSTRUCTION	635,912	-	635,912
7	CONTRIBUTIONS IN AID OF CONSTRUCTION	6,486,559	-	6,486,559
8	DEFERRED TAXES	1,139,528	-	1,139,528
9	DEFERRED PENSION COSTS NET OF TAXES	-	-	-
10	CUSTOMER DEPOSITS	3,500	-	3,500
	ADD:			
11	GAIN ON SALE OF LAND	-	(392,248)	(392,248)
12	ALLOWANCE FOR WORKING CAPITAL	350,946	(231,827)	119,119
13	TOTAL	<u>\$ 11,651,215</u>	<u>\$ (752,262)</u>	<u>\$ 10,898,953</u>

REFERENCES:

Col. (A): Company Schedule B-2, page 1 of 1, Col. (b)
 Col. (B): TJC-2, ADJ #1 thru ADJ #4
 Col. (C): Col. (A) + Col. (B)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
RATE BASE ADJUSTMENTS

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-2

LINE NO.	DESCRIPTION	COMPANY PROFORMA	ADJ #1	ADJ #2	ADJ #3	ADJ #4	ADJ #5	ADJ #6	RUCO ADJUSTED
1	GROSS UTILITY PLANT IN SERVICE	\$ 29,478,687	(138,682)		10,495				\$ 29,350,500
2	NET REG. ASSET - AFUDC DEBT	950							950
3	CONSTRUCTION WORK IN PROGRESS	-							-
4	LESS: ACCUMULATED DEPRECIATION	9,913,869							9,913,869
5	NET UTILITY PLANT IN SERVICE	19,565,768	(138,682)	-	10,495	-	-	-	19,437,581
LESS:									
6	CUSTOMERS' ADVANCES FOR CONSTRUCTION	635,912							635,912
7	CONTRIBUTIONS IN AID OF CONSTRUCTION	6,486,559							6,486,559
8	DEFERRED TAXES	1,139,528							1,139,528
9	DEFERRED PENSION COSTS NET OF TAXES	-							-
10	CUSTOMER DEPOSITS	3,500							3,500
ADD:									
11	GAIN ON SALE OF LAND	-		(392,248)					(392,248)
12	ALLOWANCE FOR WORKING CAPITAL	350,946				(231,827)			119,119
13	TOTAL	\$ 11,651,215	\$ (138,682)	\$ (392,248)	\$ 10,495	\$ (231,827)	\$ -	\$ -	\$ 10,898,953

ADJUSTMENT #'s:

- Property Held for Future Use (PHFFU)
- Gain on Sale of Land
- Capitalized Expenses
- Allowance for Working Capital

REF.

- TJC-3
- TJC-4
- RLM-8
- TJC-5, page 1

ARIZONA AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
PLANT ACCOUNT ADJUSTMENTS

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-3

LINE NO.	ACCT. NO.	ACCOUNT NAME	(1) COMPANY'S PLANT BALANCE 12/31/2004	(2) COMPANY'S PLANT ADJUSTMENTS	(3) COMPANY ADJUSTED PLANT	(4) RUCO PLANT ADJUSTMENTS	(5) REF.	(6) RUCO RECOMMENDED GROSS PLANT
1	303.99	Miscellaneous Intangible Plant Studies	\$ -	\$ -	\$ -	\$ -		\$ -
2	103000	Property Held For Future Use	-	-	-	-		-
3	307000	Wells & Springs	30,684	-	30,684	(30,684)	RB ADJ #1	-
4	311200	Pumping Equipment - Electric	100,173	-	100,173	(100,173)	RB ADJ #1	-
5	311200	Pumping Equipment - Electric	7,825	-	7,825	(7,825)	RB ADJ #1	-
6	301000	Organization	15,350	-	15,350	-		15,350
7	303200	Reservoir Land	-	-	-	-		-
8	303300	Pumping Land & Land Rights	-	-	-	-		-
9	303400	WT Land & Land Rights	-	-	-	-		-
10	303500	Dist. Res. & Standpipe Land	8,324	-	8,324	-		8,324
11	303600	Office Land	-	-	-	-		-
12	304100	SS Structures & Improvements	7,953	-	7,953	-		7,953
13	304200	Pumping Structures & Improvements	69,131	-	69,131	10,495	RB ADJ #3	79,626
14	304300	WT Structures & Improvements	3,038,848	-	3,038,848	-		3,038,848
15	304400	Grit Removal Equipment	23,864	-	23,864	-		23,864
16	304500	Structures & Improvements AG	15,173	-	15,173	-		15,173
17	304610	Heating & Air Conditioning	-	-	-	-		-
18	304700	Stores Shop & Garage Structures	93,285	-	93,285	-		93,285
19	304800	Structures & Improvements Miscellaneous	149,284	-	149,284	-		149,284
20	307000	Wells & Springs	1,252,563	-	1,252,563	-		1,252,563
21	311200	Electric Pumping Equipment	3,337,081	-	3,337,081	-		3,337,081
22	311300	Diesel Pumping Equipment	59,421	-	59,421	-		59,421
23	320100	Water Treatment Equipment	5,825,149	-	5,825,149	-		5,825,149
24	330001	Dist. Reservoirs & Standpipes	912,619	-	912,619	-		912,619
25	331100	T & D Mains - 4" & Less	706,252	-	706,252	-		706,252
26	331200	T & D Mains - 6" - 8"	3,974,977	-	3,974,977	-		3,974,977
27	331300	T & D Mains - 10" or More	5,485,424	-	5,485,424	-		5,485,424
28	333000	Services	2,178,858	-	2,178,858	-		2,178,858
29	334100	Meters	328,580	-	328,580	-		328,580
30	334200	Meter Installations	103,799	-	103,799	-		103,799
31	335000	Hydrants	746,904	-	746,904	-		746,904
32	339000	Other T & D Plant	-	-	-	-		-
33	339600	Other P/E CPS	-	-	-	-		-
34	340100	Office Furniture	43,931	-	43,931	-		43,931
35	340200	Computers & Peripherals	98,019	-	98,019	-		98,019
36	340300	Computer Software	134,174	-	134,174	-		134,174
37	340500	Other Office Equipment	25,224	-	25,224	-		25,224
38	341100	Transportation Equipment - Light Trucks	2,882	-	2,882	-		2,882
39	341300	Transportation Equipment - Automobiles	19,307	-	19,307	-		19,307
40	341400	Transportation Equipment - Other	13,606	-	13,606	-		13,606
41	343000	Tools Shop & Garage Equipment	83,291	-	83,291	-		83,291
42	345000	Power Operated Equipment	147,067	-	147,067	-		147,067
43	346001	Communication Equipment	-	-	-	-		-
44	346100	Communication Equipment - Non-Telephone	284,556	-	284,556	-		284,556
45	346300	Communication Equipment - Other	81,331	-	81,331	-		81,331
46	347000	Miscellaneous Equipment	-	-	-	-		-
47		Corporate & Central District Div. Plant Allocation	-	73,781	73,781	-		73,781
48		TOTAL PLANT IN SERVICE	29,404,909	\$ 73,781	\$ 29,478,690	\$ (128,187)		\$ 29,350,502

REFERENCES:

Col. 1 - Company's Response to RUCO 4.02
Col. 2 - Company's Schedule B-2, page 1 of 1
Col. 3 - Company's Schedule B-2, page 1 of 1
Col. 4 - See Referenced RUCO Adjustments
Col. 6 - Col. 3 + Col. 4

ARIZONA AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
RATE BASE ADJ. #2 - GAIN ON SALE OF LAND

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-4

LINE NO.	DESCRIPTION	AMOUNT
1	Sales Price	\$ 900,000
2	Sellers Costs	56,338
3	Original Cost of Land	13,492
4	Points	45,674
5	TOTAL COSTS	115,504
6	Pre-Tax Gain	784,496
7	50/50 Sharing for Ratepayers & Stcockholders	<u>\$ 392,248</u>
8	Rate Base Adjustment	<u>\$ 392,248</u>

REFERENCES:

See Direct Testimony of David P. Stephenson, page 36 of 37

ARIZONA AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
RATE BASE ADJ. #4 - WORKING CAPITAL ADJUSTMENT

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-5, PAGE 1 OF 6

LINE NO.	DESCRIPTION	AMOUNT
	Deferred Debits:	
1	Program Maintenance per Company	\$ 90,286
2	Program Maintenance per RUCO	90,286
3	RUCO Adjustment	0
4	Mummy Mountain Acquisition Costs per Company	\$ 92,528
5	Mummy Mountain Acquisition Costs per RUCO	100,302
6	RUCO Adjustment	7,774
7	Cash Working Capital per Company	\$ 168,133
8	Cash Working Capital per RUCO	\$ (71,468)
9	RUCO Adjustment	\$ (239,601)
10	Total Working Capital Adjustment	(231,827)

REFERENCES:

Lines 1 & 4: Company W/P's, Page 146
Line 5: See RUCO Schedule TJC-5, Page 2 of 5
Line 7: Company W/P's, Page 148, Line 34
Line 8: See RUCO Schedule TJC-5, Page 3 of 5, Line 28

ARIZONA AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 31, 2004
 RATE BASE ADJ #4 - WORKING CAPITAL
 MUMMY MOUNTAIN ACQUISITION ADJUSTMENT

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-5, PAGE 2 OF 6

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>REFERENCE</u>
1	Mummy Mountain Deferred Debit	\$ 131,400	RUCO 2.1
2	Amortization Rate (Years)	<u>25</u>	Decision 61307
3	Annual Amortization	<u>5,256</u>	Line 1 / Line 2
4	Accumulated Amortization	31,098	Note (A) Below
5	Net Deferred Debit	<u>100,302</u>	Line 1 - Line 4

NOTE (A):

1999	11 X 438 = \$4,818
2000	12 X 438 = \$5,256
2001	12 X 438 = \$5,256
2002	12 X 438 = \$5,256
2003	12 X 438 = \$5,256
2004	12 X 438 = <u>\$5,256</u>
	\$31,098

ARIZONA AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
RATE BASE ADJUSTMENT #4 - WORKING CAPITAL
LEAD/LAG DAY SUMMARY

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-5, PAGE 3 OF 6

LINE NO.	DESCRIPTION	(A) EXPENSE PER COMPANY	(B) EXPENSE PER APPLIC.	(C) RUCO ADJUSTMENTS	(D) RUCO ADJUSTED	(E) (LEAD)/LAG DAYS	(F) DOLLAR DAYS
1	PURCHASED WATER	\$ 38,660	\$ 38,660	-	\$ 38,660	-	\$ -
2	PURCHASED POWER	616,955	812,312	-	812,312	38.1	30,961,085
3	COMPANY LABOR	605,247	551,393	(126,964)	424,429	12.0	5,093,149
4	GOODS AND SERVICES	1,575,773	1,451,276	(138,073)	1,313,203	30.0	39,396,082
5	MATERIALS ISSUED FROM STORES	-	-	-	-	-	-
6	PBOP	25,384	87,862	(2,093)	85,769	-	-
7	GROUP LIFE INSURANCE	131,484	111,869	(2,972)	108,897	(6.5)	(707,829)
8	INJURIES DAMAGES & OTHER INS. PROVISIONS	-	-	-	-	-	-
9	PROVISIONS FOR UNCOLLECTIBLES	-	-	-	-	-	-
10	FRANCHISE REQUIREMENTS	-	-	-	-	-	-
11	FEDERAL INCOME TAX	260,000	322,999	-	251,449	-	-
12	FICA	49,370	42,168	(71,550)	32,455	60.0	15,086,916
13	FUTA	608	4,410	(\$9,713)	1,746	12.0	389,465
14	STATE CORPORATION FRANCHISE TAX	-	-	(2,664)	-	73.5	128,346
15	STATE UNEMPLOYMENT INSURANCE TAX	775	7,993	-	3,165	-	-
16	STATE AUTOMOBILE LICENSE FEES	-	-	(4,828)	-	76.0	240,540
17	CAL-AM INVOICES	-	-	-	-	-	-
18	PROPERTY TAXES	213,000	213,241	(42,907)	170,334	213.5	36,366,361
19	SERVICE COMPANY	-	-	-	-	(15.0)	-
20	RENT	66,063	43,943	(14,593)	29,350	(8.5)	(249,475)
21	OTHER	28,467	28,467	-	28,467	30.0	854,010
22	PENSION	35,783	33,772	(12,037)	21,735	-	-
23	INTEREST	-	-	373,834	373,834	107.2	40,076,615
24	TOTAL OPERATING EXPENSES	\$ 3,647,569	\$ 3,750,365	\$ (54,559)	\$ 3,695,806		\$ 167,635,266
25	EXPENSE LAG					45.4	
26	REVENUE LAG					38.30	
27	NET LAG					(7.1)	
28	CASH WORKING CAPITAL	\$ (71,468)					

REFERENCES:

Col. A, Line 28 = (Col. C, Line 24/365) X Col. D, Line 27
Col. B: RLM-2
Col. C = Col. A + Col. B
Col. D, Line 25 = Col. E, Line 24 / Col. C, Line 24
Col. D, Line 26 - See RUCO Schedule TJC-5, Page 5 of 5 - Revenue Lag Calculation
Col. D, Line 27 = Col. D, Line 26 - Col. D, Line 25

ARIZONA AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 31, 2004
RATE BASE ADJ. #4 - WORKING CAPITAL
INTEREST EXPENSE (LEAD/LAG ANALYSIS)

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-5, PAGE 4 OF 6

LINE NO.	DESCRIPTION	(A) BEGINNING	(B) ENDING	(C) MID-POINT SERVICE PERIOD	(D) PAYMENT DATE	(E) PAYMENT (LEAD/LAG	(F) PAYMENT AMOUNT	(G) DOLLAR DAYS
1	L-T Senior Notes	11/15/2003	11/15/2004	5/15/2004	2/15/2004	(90.00)	\$ 160,245	(14,422,050)
(a)					8/15/2004	92.00	160,245	14,742,540
2	L-T Promissory Note	9/30/2004	9/30/2005	3/31/2005	3/31/2005	0.00	615,000	-
(a)					9/30/2005	183.00	615,000	112,545,000
3	L-T Promissory Note	11/6/2003	11/6/2004	5/6/2004	11/6/2004	184.00	172,200	31,684,800
4	L-T Promissory Note	1/14/2004	1/14/2005	7/14/2004	11/6/2004	115.00	7,623,447	876,696,405
5	L-T Note - Maricopa	1/1/2004	12/31/2004	7/1/2004	1/30/2004	(153.00)	38,032	(5,818,829)
					4/29/2004	(63.00)	31,294	(1,971,547)
					5/20/2004	(42.00)	13,954	(586,086)
					7/23/2004	22.00	22,258	489,683
					9/23/2004	84.00	24,116	2,025,777
					10/18/2004	109.00	11,203	1,221,091
					12/8/2004	160.00	27,413	4,386,037
6	PILR - Monterey	1/1/2004	12/31/2004	7/1/2004	9/1/2004	62.00	4,330	268,460
7	PILR - Rosalee	1/1/2004	12/31/2004	7/1/2004	8/1/2004	31.00	4,556	141,236
8	PILR - T. O. Development	1/1/2004	12/31/2004	7/1/2004	8/1/2004	31.00	3,903	120,993
9	PILR - Montex/Lincoln	1/1/2004	12/31/2004	7/1/2004	8/1/2004	31.00	2,194	68,014
10	TOTAL PAYMENTS & DOLLAR DAYS							\$ 9,529,391
11	INTEREST EXPENSE LAG DAYS							\$ 1,021,591,523
								107.20

REFERENCES:

Col. (A), Line 1 & 2 Obtained From RUCO 2.12 and Staff 3.3 (Semi-Annual Payments)
Col. (A), Line 3 & 4 Obtained From Staff 3.3 Utilizing Issue Date of Most Current One-Year Period (Annual Payment)
Col. (A), Line 5 thru 9 Utilized the Test Year January 1 thru December 31, 2004 as the Starting-Point
Col. (B), Line 1 thru 9 Utilizes a Full One-Year Cut-Off Date To Capture 12 Full Months of Interest Expense
Col. (C), Line 1 thru 9 Utilizes the Annual Mid-Point Service Period
Col. (D), Line 1 thru 9 Obtained in RUCO 2.12 and Updated RUCO 2.12 on December 1, 2005 and Line 5 Obtained in RUCO 9.08
Col. (E), Line 1 thru 9 Calculated Utilizing Payment Date, Col. (D) Minus Mid-Point Service Period
Col. (F), Line 1 thru 9 Obtained in RUCO 2.12 & Updated RUCO 2.12 on 12/1/2005 and Line 5 Obtained in RUCO 9.08
Col. (G), Line 1 thru 9 Calculated by Multiplying Col. (E) X Col. (F)

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 RATE BASE ADJ. #4 - WORKING CAPITAL
 REVENUE LAG ANALYSIS

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-5, PAGE 5 OF 6

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	SERVICE PERIOD								
LINE NO.	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	BILL DATE	BILLING LAG	DUE DATE	PAY LAG	REVENUE LAG DAYS	AMOUNT OF BILL
1	9/21/2004	10/20/2004	14.50	10/22/2004	2.00	11/11/2004	20.00	36.50	\$ 56.64
2	6/16/2004	7/16/2004	15.00	7/21/2004	5.00	8/10/2004	20.00	40.00	794.12
3	2/23/2004	3/23/2004	14.50	3/25/2004	2.00	4/14/2004	20.00	36.50	171.03
4	4/20/2004	5/19/2004	14.50	5/21/2004	2.00	6/10/2004	20.00	36.50	(700.03)
5	3/11/2004	4/12/2004	16.00	4/14/2004	2.00	5/4/2004	20.00	38.00	152.65
6	7/14/2004	8/13/2004	15.00	8/17/2004	4.00	9/7/2004	21.00	40.00	7,521.54
7	5/26/2004	6/25/2004	15.00	6/29/2004	4.00	7/19/2004	20.00	39.00	1,059.17
8	4/19/2004	5/20/2004	15.50	5/25/2004	5.00	6/14/2004	20.00	40.50	1,143.68
9	12/26/2003	1/28/2004	16.50	1/30/2004	2.00	2/19/2004	20.00	38.50	61.02
10	8/18/2004	9/20/2004	16.50	9/22/2004	2.00	10/12/2004	20.00	38.50	151.91
11	10/20/2004	11/17/2004	14.00	11/22/2004	5.00	12/13/2004	21.00	40.00	58.35
12	7/12/2005	8/10/2005	14.50	8/12/2005	2.00	9/1/2005	20.00	36.50	5.49
13	3/11/2004	4/12/2004	16.00	4/14/2004	2.00	5/4/2004	20.00	38.00	5.39
14	4/19/2005	5/18/2005	14.50	5/20/2005	2.00	6/9/2005	20.00	36.50	5.41
15	1/23/2004	2/23/2004	15.50	2/25/2004	2.00	3/16/2004	20.00	37.50	10.78
16	6/3/2004	7/2/2004	14.50	7/7/2004	5.00	7/27/2004	20.00	39.50	(11.65)
17	7/6/2004	8/5/2004	15.00	8/9/2004	4.00	8/30/2004	21.00	40.00	29.99
18	8/25/2004	9/27/2004	16.50	9/29/2004	2.00	10/19/2004	20.00	38.50	31.11
19	10/18/2004	11/15/2004	14.00	11/18/2004	3.00	12/8/2004	20.00	37.00	12.67
20	1/15/2004	2/13/2004	14.50	2/17/2004	4.00	3/8/2004	20.00	38.50	940.82
AVERAGES			15.10		3.05		20.15 =	38.30	

REFERENCES:

RUCO 8.03 - which analyzed 20 actual PV bills from various customer classifications and meter sizes

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
RATE BASE ADJ. #4 - WORKING CAPITAL
PROPERTY TAX LAG DAYS ANALYSIS

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-5, PAGE 6 OF 6

	(A)	(B)	(C)	(D)	(E)
	SERVICE PERIOD				
LINE NO.	BEGINNING	ENDING	MID-POINT SERVICE PERIOD	DUE DATE	EXPENSE LAG DAYS
1	1/1/2004	12/31/2004	7/1/2004	11/1/2004	61.50
2				5/1/2005	152.00
3	TOTAL PROPERTY TAX LAG DAYS				213.50

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 RECOMMENDED RATES

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-6, PAGE 1 OF 9

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:				
1				
2				
3	PARADISE VALLEY RESIDENTIAL CUSTOMERS			
4	5/8 X 3/4 - INCH	\$ 8.41	\$ 9.26	\$ 8.00
5	3/4 - INCH	8.74	9.62	8.35
6	1 - INCH	14.01	15.42	13.35
7	1 1/2 - INCH	28.02	30.83	26.35
8	2 - INCH	44.83	49.32	41.35
9	3 - INCH	-	92.47	77.35
10	4 - INCH	-	154.11	128.35
11	6 - INCH	-	308.22	256.60
12	8 - INCH	-	-	512.80
13	10 - INCH	-	-	1,025.20
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	PARADISE VALLEY RESIDENTIAL CUSTOMERS	0	0	0
18				
19	RECOMMENDED COMMODITY RATES BY METER SIZE			
20				
21	ALL METER SIZES			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO	\$ 0.73	\$ 0.79	\$ 0.72
23	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 25,001 TO	\$ 1.68	\$ 1.75	\$ 1.44
24	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER	\$ 2.17	\$ 2.25	\$ 2.02

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
RECOMMENDED RATES

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-6, PAGE 2 OF 9

LINE NO.	DESCRIPTION	PRESENT RATES		COMPANY PROPOSED		RUCO PROPOSED	
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:						
2							
3	MUMMY MOUNTAIN RESIDENTIAL CUSTOMERS						
4	5/8 X 3/4 - INCH	\$	9.00	\$	9.26	\$	8.00
5	3/4 - INCH		-		-		8.35
6	1 - INCH		9.75		15.42		13.35
7	1 1/2 - INCH		14.00		30.83		26.35
8	2 - INCH		25.75		49.32		41.35
9	3 - INCH		-		-		77.35
10	4 - INCH		-		-		128.35
11	6 - INCH		-		-		256.60
12	8 - INCH		-		-		512.80
13	10 - INCH		-		-		1,025.20
14							
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:						
16							
17	MUMMY MOUNTAIN RESIDENTIAL CUSTOMERS		1,000		0		0
18							
19	RECOMMENDED COMMODITY RATES BY METER SIZE						
20							
21	ALL METER SIZES						
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO	\$	-	\$	0.79	\$	0.72
23	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 1,001	\$	1.74	\$	0.79	\$	0.72
24	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 25,001	\$	1.74	\$	1.75	\$	1.44
25	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER	\$	1.74	\$	2.25	\$	2.02

1,000 GALLONS:
25,000 GALLONS:
80,000 GALLONS:
80,000 GALLONS:

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 RECOMMENDED RATES

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-6, PAGE 3 OF 9

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:				
1				
2				
3	PARADISE VALLEY COMMERCIAL CUSTOMERS			
4	5/8 X 3/4 - INCH	\$ 8.41	\$ 9.26	\$ 8.00
5	3/4 - INCH	8.74	9.62	8.35
6	1 - INCH	14.01	15.42	13.35
7	1 1/2 - INCH	28.02	30.83	26.35
8	2 - INCH	44.83	49.32	41.35
9	3 - INCH	84.06	92.47	77.35
10	4 - INCH	140.10	154.11	128.35
11	6 - INCH	280.20	308.22	256.60
12	8 - INCH	-	-	512.80
13	10 - INCH	-	-	1,025.20
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	PARADISE VALLEY COMMERCIAL CUSTOMERS	0	0	0
18				
19	RECOMMENDED COMMODITY RATES BY METER SIZE			
20				
21	ALL METER SIZES			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - ZERO TO 400,000 GALLONS:	\$ 1.17	\$ 1.26	\$ 1.06
23	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 400,000 GALLONS:	\$ 1.46	\$ 1.57	\$ 1.35

ZERO TO 400,000 GALLONS:
 OVER 400,000 GALLONS:

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 RECOMMENDED RATES

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-6, PAGE 4 OF 9

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:				
1				
2				
3	PARADISE VALLEY TURF CUSTOMERS			
4	5/8 X 3/4 - INCH	\$ -	\$ -	\$ 8.00
5	3/4 - INCH	-	-	8.35
6	1 - INCH	-	-	13.35
7	1 1/2 - INCH	-	-	26.35
8	2 - INCH	-	-	41.35
9	3 - INCH	84.06	92.47	77.70
10	4 - INCH	-	-	128.35
11	6 - INCH	-	-	256.60
12	8 - INCH	-	-	512.80
13	10 - INCH	-	-	1,025.20
14				
GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:				
15				
16				
17	PARADISE VALLEY TURF CUSTOMERS	0	0	0
18				
RECOMMENDED COMMODITY RATES BY METER SIZE				
19				
20				
21	ALL METER SIZES			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM)	\$ 0.90	\$ 1.00	\$ 0.82

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-6, PAGE 5 OF 9

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:			
2				
3	PARADISE VALLEY COUNTRY CLUB CONTRACT RATE			
4	5/8 X 3/4 - INCH			
5	3/4 - INCH	-	-	-
6	1 - INCH	-	-	-
7	1 1/2 - INCH	-	-	-
8	2 - INCH	-	-	-
9	3 - INCH	-	-	-
10	4 - INCH	-	-	-
11	6 - INCH	\$ 12,817.00	\$ 12,817.00	\$ 11,731.77
12	8 - INCH	-	-	-
13	10 - INCH	-	-	-
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	PARADISE VALLEY COUNTRY CLUB CONTRACT RATE	0	0	0
18				
19	RECOMMENDED COMMODITY RATES BY METER SIZE			
20				
21	6 - INCH			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM)	\$ -	\$ -	\$ -

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 RECOMMENDED RATES

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-6, PAGE 6 OF 9

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:				
1				
2				
3	PARADISE VALLEY OTHER METERED CUSTOMERS			
4	5/8 X 3/4 - INCH	\$ 8.41	\$ 9.26	\$ 8.00
5	3/4 - INCH	-	-	8.35
6	1 - INCH	14.01	15.42	13.35
7	1 1/2 - INCH	-	-	26.35
8	2 - INCH	44.83	49.32	41.35
9	3 - INCH	-	-	77.35
10	4 - INCH	-	-	128.35
11	6 - INCH	-	-	256.60
12	8 - INCH	-	-	512.80
13	10 - INCH	-	-	1,025.20
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	PARADISE VALLEY OTHER METERED CUSTOMERS	0	0	0
18				
19	RECOMMENDED COMMODITY RATES BY METER SIZE			
20				
21	ALL METER SIZES			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM)	\$ 1.32	\$ 1.46	\$ 1.19

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 RECOMMENDED RATES

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-6, PAGE 7 OF 9

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:				
1				
2				
3	PARADISE VALLEY FIRE HYDRANT			
4	5/8 X 3/4 - INCH	\$ 5.00	\$ 5.00	\$ 4.92
5	3/4 - INCH	5.00	5.00	4.92
6	1 - INCH	5.00	5.00	4.92
7	1 1/2 - INCH	-	-	4.92
8	2 - INCH	5.00	5.00	4.92
9	3 - INCH	-	-	4.92
10	4 - INCH	-	-	4.92
11	6 - INCH	-	-	4.92
12	8 - INCH	-	-	4.92
13	10 - INCH	-	-	4.92
14				
GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:				
15				
16				
17	PARADISE VALLEY FIRE HYDRANT	0	0	0
18				
RECOMMENDED COMMODITY RATES BY METER SIZE				
19				
20				
21	ALL METER SIZES			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM)	\$ -	\$ -	\$ -

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 RECOMMENDED RATES

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-6, PAGE 8 OF 9

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:			
2				
3	PARADISE VALLEY IRRIGATION			
4	5/8 X 3/4 - INCH	\$ -	\$ -	\$ -
5	3/4 - INCH	-	-	-
6	1 - INCH	-	-	-
7	1 1/2 - INCH	-	-	-
8	2 - INCH	-	-	-
9	3 - INCH	84.06	92.47	80.35
10	4 - INCH	-	-	-
11	6 - INCH	-	-	-
12	8 - INCH	-	-	-
13	10 - INCH	-	-	-
14				
15	GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:			
16				
17	PARADISE VALLEY IRRIGATION	0	0	0
18				
19	RECOMMENDED COMMODITY RATES BY METER SIZE			
20				
21	ALL METER SIZES			
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM)	\$ 1.32	\$ 1.46	\$ 1.32

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 RECOMMENDED RATES

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-6, PAGE 9 OF 9

LINE NO.	DESCRIPTION	PRESENT RATES		COMPANY PROPOSED		RUCO PROPOSED	
RECOMMENDED MONTHLY MINIMUM USAGE CHARGE:							
1							
2							
3	PARADISE VALLEY SALES FOR RESALE						
4	5/8 X 3/4 - INCH	\$	8.41	\$	9.26	\$	8.35
5	3/4 - INCH		-		9.62		8.70
6	1 - INCH		14.01		15.42		13.70
7	1 1/2 - INCH		-		30.83		26.70
8	2 - INCH		44.83		49.32		41.70
9	3 - INCH		-		92.47		77.70
10	4 - INCH		-		154.11		128.70
11	6 - INCH		-		308.22		256.95
12	8 - INCH		-		-		513.15
13	10 - INCH		-		-		1,025.55
14							
GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:							
15							
16							
17	PARADISE VALLEY SALES FOR RESALE		0		0		0
18							
RECOMMENDED COMMODITY RATES BY METER SIZE							
19							
20							
21	ALL METER SIZES						
22	COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM)	\$	1.32	\$	1.46	\$	1.19

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
MONTHLY MINIMUM CHARGES

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-7, PAGE 1 OF 9

PARADISE VALLEY RESIDENTIAL CUSTOMERS

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ 8.41	\$ 9.26	\$ 0.85	10.11%	\$ 8.00	\$ (0.41)	-4.88%
2	3/4 - INCH	8.74	9.62	0.88	10.07%	8.35	(0.39)	-4.46%
3	1 - INCH	14.01	15.42	1.41	10.06%	13.35	(0.66)	-4.71%
4	1 1/2 - INCH	28.02	30.83	2.81	10.03%	26.35	(1.67)	-5.96%
5	2 - INCH	44.83	49.32	4.49	10.02%	41.35	(3.48)	-7.76%
6	3 - INCH	-	92.47	92.47	-	77.35	-	-
7	4 - INCH	-	154.11	154.11	-	128.35	-	-
8	6 - INCH	-	308.22	308.22	-	256.60	-	-
9	8 - INCH	-	-	-	-	512.80	-	-
10	10 - INCH	-	-	-	-	1,025.20	-	-
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	0	0			0		

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY TJC
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) + COLUMN (A)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
MONTHLY MINIMUM CHARGES

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-7, PAGE 2 OF 9

MUMMY MOUNTAIN RESIDENTIAL CUSTOMERS

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ 9.00	\$ 9.26	\$ 0.26	2.89%	\$ 8.00	\$ (1.00)	-11.11%
2	3/4 - INCH	-	-	-	-	8.35	-	-
3	1 - INCH	9.75	15.42	5.67	58.15%	13.35	3.60	36.92%
4	1 1/2 - INCH	14.00	30.83	16.83	120.21%	26.35	12.35	88.21%
5	2 - INCH	25.75	49.32	23.57	91.53%	41.35	15.60	60.58%
6	3 - INCH	-	-	-	-	77.35	-	-
7	4 - INCH	-	-	-	-	128.35	-	-
8	6 - INCH	-	-	-	-	256.60	-	-
9	8 - INCH	-	-	-	-	512.80	-	-
10	10 - INCH	-	-	-	-	1,025.20	-	-
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	1,000	0			0		

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY TJC
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) + COLUMN (A)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
MONTHLY MINIMUM CHARGES

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-7, PAGE 3 OF 9

PARADISE VALLEY COMMERCIAL CUSTOMERS

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ 8.74	\$ 9.62	\$ 0.88	10.07%	\$ 8.35	\$ (0.39)	-4.46%
2	3/4 - INCH	14.01	15.42	1.41	10.06%	13.35	(0.66)	-4.71%
3	1 - INCH	28.02	30.83	2.81	10.03%	26.35	(1.67)	-5.96%
4	1 1/2 - INCH	44.83	49.32	4.49	10.02%	41.35	(3.48)	-7.76%
5	2 - INCH	84.06	92.47	8.41	10.00%	77.35	(6.71)	-7.98%
6	3 - INCH	140.10	154.11	14.01	10.00%	128.35	(11.75)	-8.39%
7	4 - INCH	280.20	308.22	28.02	10.00%	256.60	(23.60)	-8.42%
8	6 - INCH	-	-	-	0.00%	512.80	-	-
9	8 - INCH	-	-	-	0.00%	1,025.20	-	-
10	10 - INCH	-	-	-	0.00%	-	-	-
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	0	0	0		0		

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY TJC
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) + COLUMN (A)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
MONTHLY MINIMUM CHARGES

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-7, PAGE 4 OF 9

PARADISE VALLEY TURF CUSTOMERS

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ -	\$ -	\$ -	-	\$ -	\$ -	-
2	3/4 - INCH	-	-	-	-	-	-	-
3	1 - INCH	-	-	-	-	-	-	-
4	1 1/2 - INCH	-	-	-	-	-	-	-
5	2 - INCH	-	-	-	-	-	-	-
6	3 - INCH	84.06	92.47	8.41	10.00%	77.70	(6.36)	-7.57%
7	4 - INCH	-	-	-	-	-	-	-
8	6 - INCH	-	-	-	-	-	-	-
9	8 - INCH	-	-	-	-	-	-	-
10	10 - INCH	-	-	-	-	-	-	-
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	0	0	0		0		

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY TJC
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) + COLUMN (A)

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 MONTHLY MINIMUM CHARGES

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-7, PAGE 5 OF 9

PARADISE VALLEY COUNTRY CLUB CONTRACT RATE

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ -	\$ -	\$ -	-	\$ -	\$ -	-
2	3/4 - INCH	-	-	-	-	-	-	-
3	1 - INCH	-	-	-	-	-	-	-
4	1 1/2 - INCH	-	-	-	-	-	-	-
5	2 - INCH	-	-	-	-	-	-	-
6	3 - INCH	-	-	-	-	-	-	-
7	4 - INCH	-	-	-	-	-	-	-
8	6 - INCH	12,817.00	12,817.00	-	0.00%	11,731.77	(1,085.23)	-8.47%
9	8 - INCH	-	-	-	-	-	-	-
10	10 - INCH	-	-	-	-	-	-	-
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	0	0	0		0		

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
 COLUMN (E): TESTIMONY TJC
 COLUMN (F): COLUMN (E) - COLUMN (A)
 COLUMN (G): COLUMN (F) + COLUMN (A)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
MONTHLY MINIMUM CHARGES

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-7, PAGE 6 OF 9

PARADISE VALLEY OTHER METERED CUSTOMERS

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ 8.41	\$ (9.26)	\$ (0.85)	-10.11%	\$ 8.00	\$ (0.41)	-4.88%
2	3/4 - INCH	-	-	-	-	8.35	-	-
3	1 - INCH	14.01	(15.42)	(1.41)	-10.06%	13.35	(0.66)	-4.71%
4	1 1/2 - INCH	-	-	-	-	26.35	-	-
5	2 - INCH	44.83	(49.32)	(4.49)	-10.02%	41.35	(3.48)	-7.76%
6	3 - INCH	-	-	-	-	77.35	-	-
7	4 - INCH	-	-	-	-	128.35	-	-
8	6 - INCH	-	-	-	-	256.60	-	-
9	8 - INCH	-	-	-	-	512.80	-	-
10	10 - INCH	-	-	-	-	1,025.20	-	-
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	0	0			0		

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY TJC
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) + COLUMN (A)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
MONTHLY MINIMUM CHARGES

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-7, PAGE 7 OF 9

PARADISE VALLEY FIRE HYDRANT

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ 5.00	\$ 5.00	\$ -	0.00%	\$ 4.92	\$ (0.08)	-1.56%
2	3/4 - INCH	5.00	5.00	-	0.00%	4.92	(0.08)	-1.56%
3	1 - INCH	5.00	5.00	-	0.00%	4.92	(0.08)	-1.56%
4	1 1/2 - INCH	-	-	-	-	4.92	-	-
5	2 - INCH	5.00	5.00	-	0.00%	4.92	(0.08)	-1.56%
6	3 - INCH	-	-	-	-	4.92	-	-
7	4 - INCH	-	-	-	-	4.92	-	-
8	6 - INCH	-	-	-	-	4.92	-	-
9	8 - INCH	-	-	-	-	4.92	-	-
10	10 - INCH	-	-	-	-	4.92	-	-
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	0	0			0		

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY TJC
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) ÷ COLUMN (A)

PARADISE VALLEY IRRIGATION

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ -	\$ -	\$ -	-	\$ -	\$ -	-
2	3/4 - INCH	-	-	-	-	-	-	-
3	1 - INCH	-	-	-	-	-	-	-
4	1 1/2 - INCH	-	-	-	-	-	-	-
5	2 - INCH	-	-	-	-	-	-	-
6	3 - INCH	84.06	92.47	8.41	10.00%	80.35	(3.71)	-4.41%
7	4 - INCH	-	-	-	-	-	-	-
8	6 - INCH	-	-	-	-	-	-	-
9	8 - INCH	-	-	-	-	-	-	-
10	10 - INCH	-	-	-	-	-	-	-
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	0	0	0		0		

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
 COLUMN (E): TESTIMONY TJC
 COLUMN (F): COLUMN (E) - COLUMN (A)
 COLUMN (G): COLUMN (F) + COLUMN (A)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
MONTHLY MINIMUM CHARGES

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-7, PAGE 9 OF 9

PARADISE VALLEY SALES FOR RESALE

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO RECOMMENDED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	\$ 8.41	\$ 9.26	\$ 0.85	10.11%	\$ 8.35	\$ (0.06)	-0.71%
2	3/4 - INCH	-	9.62	9.62	-	8.70	8.70	-
3	1 - INCH	14.01	15.42	1.41	10.06%	13.70	(0.31)	-2.21%
4	1 1/2 - INCH	-	30.83	30.83	-	26.70	26.70	-
5	2 - INCH	44.83	49.32	4.49	10.02%	41.70	(3.13)	-6.98%
6	3 - INCH	-	92.47	92.47	-	77.70	77.70	-
7	4 - INCH	-	154.11	154.11	-	128.70	128.70	-
8	6 - INCH	-	308.22	308.22	-	256.95	256.95	-
9	8 - INCH	-	-	-	-	513.15	513.15	-
10	10 - INCH	-	-	-	-	1,025.55	1,025.55	-
11	GALLONS INCLUDED IN MONTHLY MINIMUM CHARGE	0	0			0		

REFERENCES

COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY TJC
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) + COLUMN (A)

PARADISE VALLEY RESIDENTIAL CUSTOMERS - PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ 8.41	\$ 8.74	\$ 14.01	\$ 28.02	\$ 44.83	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	9.14	9.47	14.74	28.75	45.56	-	-	-	-	-
3	2,000	9.87	10.20	15.47	29.48	46.29	-	-	-	-	-
4	3,000	10.60	10.93	16.20	30.21	47.02	-	-	-	-	-
5	4,000	11.33	11.66	16.93	30.94	47.75	-	-	-	-	-
6	5,000	12.06	12.39	17.66	31.67	48.48	-	-	-	-	-
7	6,000	12.79	13.12	18.39	32.40	49.21	-	-	-	-	-
8	7,000	13.52	13.85	19.12	33.13	49.94	-	-	-	-	-
9	8,000	14.25	14.58	19.85	33.86	50.67	-	-	-	-	-
10	9,000	14.98	15.31	20.58	34.59	51.40	-	-	-	-	-
11	10,000	15.71	16.04	21.31	35.32	52.13	-	-	-	-	-
12	15,000	19.36	19.69	24.96	38.97	55.78	-	-	-	-	-
13	20,000	23.01	23.34	28.61	42.62	59.43	-	-	-	-	-
14	25,000	26.66	26.99	32.26	46.27	63.08	-	-	-	-	-
15	50,000	68.66	68.99	74.26	88.27	105.08	-	-	-	-	-
16	75,000	110.66	110.99	116.26	130.27	147.08	-	-	-	-	-
17	100,000	162.46	162.79	168.06	182.07	198.88	-	-	-	-	-
18	125,000	216.71	217.04	222.31	236.32	253.13	-	-	-	-	-
19	150,000	270.96	271.29	276.56	290.57	307.38	-	-	-	-	-
20	175,000	325.21	325.54	330.81	344.82	361.63	-	-	-	-	-
21	200,000	379.46	379.79	385.06	399.07	415.88	-	-	-	-	-
22	250,000	487.96	488.29	493.56	507.57	524.38	-	-	-	-	-
23	500,000	1,030.46	1,030.79	1,036.06	1,050.07	1,066.88	-	-	-	-	-
24	1,000,000	2,115.46	2,115.79	2,121.06	2,135.07	2,151.88	-	-	-	-	-
25	2,000,000	4,285.46	4,285.79	4,291.06	4,305.07	4,321.88	-	-	-	-	-
26	3,000,000	6,455.46	6,455.79	6,461.06	6,475.07	6,491.88	-	-	-	-	-
27	4,000,000	8,625.46	8,625.79	8,631.06	8,645.07	8,661.88	-	-	-	-	-
28	5,000,000	10,795.46	10,795.79	10,801.06	10,815.07	10,831.88	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	2,319	17	1,895	10	118	-	-	-	-	-
32											
33	AVG. USE (GAL.):	22,245	3,493	59,895	181,724	133,510	-	-	-	-	-
34	MONTHLY BILL:	\$ 24.65	\$ 11.29	\$ 90.88	\$ 359.41	\$ 271.60	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	12,223	161	40,083	100,982	70,375	-	-	-	-	-
37	MONTHLY BILL:	\$ 17.33	\$ 8.86	\$ 57.60	\$ 184.20	\$ 139.31	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY RESIDENTIAL CUSTOMERS - RUCO RECOMMENDED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ 8.00	\$ 8.35	\$ 13.35	\$ 26.35	\$ 41.35	\$ 77.35	\$ 128.35	\$ 256.60	\$ 512.80	\$ 1,025.20
2	1,000	8.72	9.07	14.07	27.07	42.07	78.07	129.07	257.32	513.52	1,025.92
3	2,000	9.44	9.79	14.79	27.79	42.79	78.79	129.79	258.04	514.24	1,026.64
4	3,000	10.16	10.51	15.51	28.51	43.51	79.51	130.51	258.76	514.96	1,027.36
5	4,000	10.88	11.23	16.23	29.23	44.23	80.23	131.23	259.48	515.68	1,028.08
6	5,000	11.60	11.95	16.95	29.95	44.95	80.95	131.95	260.20	516.40	1,028.80
7	6,000	12.32	12.67	17.67	30.67	45.67	81.67	132.67	260.92	517.12	1,029.52
8	7,000	13.04	13.39	18.39	31.39	46.39	82.39	133.39	261.64	517.84	1,030.24
9	8,000	13.76	14.11	19.11	32.11	47.11	83.11	134.11	262.36	518.56	1,030.96
10	9,000	14.48	14.83	19.83	32.83	47.83	83.83	134.83	263.08	519.28	1,031.68
11	10,000	15.20	15.55	20.55	33.55	48.55	84.55	135.55	263.80	520.00	1,032.40
12	15,000	18.80	19.15	24.15	37.15	52.15	88.15	139.15	267.40	523.60	1,036.00
13	20,000	22.40	22.75	27.75	40.75	55.75	91.75	142.75	271.00	527.20	1,039.60
14	25,000	26.00	26.35	31.35	44.35	59.35	95.35	146.35	274.60	530.80	1,043.20
15	50,000	62.00	62.35	67.35	80.35	95.35	131.35	182.35	310.60	566.80	1,079.20
16	75,000	98.00	98.35	103.35	116.35	131.35	167.35	218.35	346.60	602.80	1,115.20
17	100,000	145.60	145.95	150.95	163.95	178.95	214.95	265.95	394.20	650.40	1,162.80
18	125,000	196.10	196.45	201.45	214.45	229.45	265.45	316.45	444.70	700.90	1,213.30
19	150,000	246.60	246.95	251.95	264.95	279.95	315.95	366.95	495.20	751.40	1,263.80
20	175,000	297.10	297.45	302.45	315.45	330.45	366.45	417.45	545.70	801.90	1,314.30
21	200,000	347.60	347.95	352.95	365.95	380.95	416.95	467.95	596.20	852.40	1,364.80
22	250,000	448.60	448.95	453.95	466.95	481.95	517.95	568.95	697.20	953.40	1,465.80
23	500,000	953.60	953.95	958.95	971.95	986.95	1,022.95	1,073.95	1,202.20	1,458.40	1,970.80
24	1,000,000	1,963.60	1,963.95	1,968.95	1,981.95	1,996.95	2,032.95	2,083.95	2,212.20	2,468.40	2,980.80
25	2,000,000	3,983.60	3,983.95	3,988.95	4,001.95	4,016.95	4,052.95	4,103.95	4,232.20	4,488.40	5,000.80
26	3,000,000	6,003.60	6,003.95	6,008.95	6,021.95	6,036.95	6,072.95	6,123.95	6,252.20	6,508.40	7,020.80
27	4,000,000	8,023.60	8,023.95	8,028.95	8,041.95	8,056.95	8,092.95	8,143.95	8,272.20	8,528.40	9,040.80
28	5,000,000	10,043.60	10,043.95	10,048.95	10,061.95	10,076.95	10,112.95	10,163.95	10,292.20	10,548.40	11,060.80
29											
30											
31	AVG. NO. OF CUST:	2,319	17	1,895	10	118	-	-	-	-	-
32											
33	AVG. USE (GAL.):	22,245	3,493	59,895	181,724	133,510	-	-	-	-	-
34	MONTHLY BILL:	\$ 24.02	\$ 10.86	\$ 81.60	\$ 329.03	\$ 246.64	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	12,223	161	40,083	100,982	70,375	-	-	-	-	-
37	MONTHLY BILL:	\$ 16.80	\$ 8.47	\$ 53.07	\$ 165.93	\$ 124.69	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY RESIDENTIAL CUSTOMERS - RUCO RECOMMENDED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ (0.41)	\$ (0.39)	\$ (0.66)	\$ (1.67)	\$ (3.48)	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	(0.42)	(0.40)	(0.67)	(1.68)	(3.49)	-	-	-	-	-
3	2,000	(0.43)	(0.41)	(0.68)	(1.69)	(3.50)	-	-	-	-	-
4	3,000	(0.44)	(0.42)	(0.69)	(1.70)	(3.51)	-	-	-	-	-
5	4,000	(0.45)	(0.43)	(0.70)	(1.71)	(3.52)	-	-	-	-	-
6	5,000	(0.46)	(0.44)	(0.71)	(1.72)	(3.53)	-	-	-	-	-
7	6,000	(0.47)	(0.45)	(0.72)	(1.73)	(3.54)	-	-	-	-	-
8	7,000	(0.48)	(0.46)	(0.73)	(1.74)	(3.55)	-	-	-	-	-
9	8,000	(0.49)	(0.47)	(0.74)	(1.75)	(3.56)	-	-	-	-	-
10	9,000	(0.50)	(0.48)	(0.75)	(1.76)	(3.57)	-	-	-	-	-
11	10,000	(0.51)	(0.49)	(0.76)	(1.77)	(3.58)	-	-	-	-	-
12	15,000	(0.56)	(0.54)	(0.81)	(1.82)	(3.63)	-	-	-	-	-
13	20,000	(0.61)	(0.59)	(0.86)	(1.87)	(3.68)	-	-	-	-	-
14	25,000	(0.66)	(0.64)	(0.91)	(1.92)	(3.73)	-	-	-	-	-
15	50,000	(0.66)	(0.64)	(0.91)	(1.92)	(3.73)	-	-	-	-	-
16	75,000	(12.66)	(12.64)	(12.91)	(13.92)	(15.73)	-	-	-	-	-
17	100,000	(16.86)	(16.84)	(17.11)	(18.12)	(19.93)	-	-	-	-	-
18	125,000	(20.61)	(20.59)	(20.86)	(21.87)	(23.68)	-	-	-	-	-
19	150,000	(24.36)	(24.34)	(24.61)	(25.62)	(27.43)	-	-	-	-	-
20	175,000	(28.11)	(28.09)	(28.36)	(29.37)	(31.18)	-	-	-	-	-
21	200,000	(31.86)	(31.84)	(32.11)	(33.12)	(34.93)	-	-	-	-	-
22	250,000	(39.36)	(39.34)	(39.61)	(40.62)	(42.43)	-	-	-	-	-
23	500,000	(76.86)	(76.84)	(77.11)	(78.12)	(79.93)	-	-	-	-	-
24	1,000,000	(151.86)	(151.84)	(152.11)	(153.12)	(154.93)	-	-	-	-	-
25	2,000,000	(301.86)	(301.84)	(302.11)	(303.12)	(304.93)	-	-	-	-	-
26	3,000,000	(451.86)	(451.84)	(452.11)	(453.12)	(454.93)	-	-	-	-	-
27	4,000,000	(601.86)	(601.84)	(602.11)	(603.12)	(604.93)	-	-	-	-	-
28	5,000,000	(751.86)	(751.84)	(752.11)	(753.12)	(754.93)	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	2,319	17	1,895	10	118	-	-	-	-	-
32											
33	AVG. USE (GAL.):	22,245	3,493	59,895	181,724	133,510	-	-	-	-	-
34	MONTHLY BILL:	\$ (0.63)	\$ (0.43)	\$ (9.28)	\$ (30.38)	\$ (24.96)	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	12,223	161	40,083	100,982	70,375	-	-	-	-	-
37	MONTHLY BILL:	\$ (0.53)	\$ (0.39)	\$ (4.53)	\$ (18.27)	\$ (14.62)	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY RESIDENTIAL CUSTOMERS - RUCO RECOMMENDED CHANGES EXPRESSED AS A PERCENTAGE

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	-4.9%	-4.5%	-4.7%	-6.0%	-7.8%	-	-	-	-	-
2	1,000	-4.6%	-4.2%	-4.5%	-5.8%	-7.7%	-	-	-	-	-
3	2,000	-4.4%	-4.0%	-4.4%	-5.7%	-7.6%	-	-	-	-	-
4	3,000	-4.2%	-3.8%	-4.3%	-5.6%	-7.5%	-	-	-	-	-
5	4,000	-4.0%	-3.7%	-4.1%	-5.5%	-7.4%	-	-	-	-	-
6	5,000	-3.8%	-3.6%	-4.0%	-5.4%	-7.3%	-	-	-	-	-
7	6,000	-3.7%	-3.4%	-3.9%	-5.3%	-7.2%	-	-	-	-	-
8	7,000	-3.6%	-3.3%	-3.8%	-5.3%	-7.1%	-	-	-	-	-
9	8,000	-3.4%	-3.2%	-3.7%	-5.2%	-7.0%	-	-	-	-	-
10	9,000	-3.3%	-3.1%	-3.6%	-5.1%	-6.9%	-	-	-	-	-
11	10,000	-3.2%	-3.1%	-3.6%	-5.0%	-6.9%	-	-	-	-	-
12	15,000	-2.9%	-2.7%	-3.2%	-4.7%	-6.5%	-	-	-	-	-
13	20,000	-2.7%	-2.5%	-3.0%	-4.4%	-6.2%	-	-	-	-	-
14	25,000	-2.5%	-2.4%	-2.8%	-4.1%	-5.9%	-	-	-	-	-
15	50,000	-9.7%	-9.6%	-9.3%	-9.0%	-9.3%	-	-	-	-	-
16	75,000	-11.4%	-11.4%	-11.1%	-10.7%	-10.7%	-	-	-	-	-
17	100,000	-10.4%	-10.3%	-10.2%	-10.0%	-10.0%	-	-	-	-	-
18	125,000	-9.5%	-9.5%	-9.4%	-9.3%	-9.4%	-	-	-	-	-
19	150,000	-9.0%	-9.0%	-8.9%	-8.8%	-8.9%	-	-	-	-	-
20	175,000	-8.6%	-8.6%	-8.6%	-8.5%	-8.6%	-	-	-	-	-
21	200,000	-8.4%	-8.4%	-8.3%	-8.3%	-8.4%	-	-	-	-	-
22	250,000	-8.1%	-8.1%	-8.0%	-8.0%	-8.1%	-	-	-	-	-
23	500,000	-7.5%	-7.5%	-7.4%	-7.4%	-7.5%	-	-	-	-	-
24	1,000,000	-7.2%	-7.2%	-7.2%	-7.2%	-7.2%	-	-	-	-	-
25	2,000,000	-7.0%	-7.0%	-7.0%	-7.0%	-7.1%	-	-	-	-	-
26	3,000,000	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-	-	-	-	-
27	4,000,000	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-	-	-	-	-
28	5,000,000	-7.0%	-7.0%	-7.0%	-7.0%	-7.0%	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	2,319	17	1,895	10	118	-	-	-	-	-
32											
33	AVG. USE (GAL.):	22,245	3,493	59,895	181,724	133,510	-	-	-	-	-
34	MONTHLY BILL:	-2.6%	-3.8%	-10.2%	-8.5%	-9.2%	-	-	-	-	-
35											
36	MEDIAN USE (GAL.):	12,223	161	40,083	100,982	70,375	-	-	-	-	-
37	MONTHLY BILL:	-3.1%	-4.4%	-7.9%	-9.9%	-10.5%	-	-	-	-	-

MUMMY MOUNTAIN RESIDENTIAL CUSTOMERS - PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ 9.00	\$ -	\$ 9.75	\$ 14.00	\$ 25.75	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	9.00	-	9.75	14.00	25.75	-	-	-	-	-
3	2,000	10.74	-	11.49	15.74	27.49	-	-	-	-	-
4	3,000	12.48	-	13.23	17.48	29.23	-	-	-	-	-
5	4,000	14.22	-	14.97	19.22	30.97	-	-	-	-	-
6	5,000	15.96	-	16.71	20.96	32.71	-	-	-	-	-
7	6,000	17.70	-	18.45	22.70	34.45	-	-	-	-	-
8	7,000	19.44	-	20.19	24.44	36.19	-	-	-	-	-
9	8,000	21.18	-	21.93	26.18	37.93	-	-	-	-	-
10	9,000	22.92	-	23.67	27.92	39.67	-	-	-	-	-
11	10,000	24.66	-	25.41	29.66	41.41	-	-	-	-	-
12	15,000	33.36	-	34.11	38.36	50.11	-	-	-	-	-
13	20,000	42.06	-	42.81	47.06	58.81	-	-	-	-	-
14	25,000	50.76	-	51.51	55.76	67.51	-	-	-	-	-
15	50,000	94.26	-	95.01	99.26	111.01	-	-	-	-	-
16	75,000	137.76	-	138.51	142.76	154.51	-	-	-	-	-
17	100,000	181.26	-	182.01	186.26	198.01	-	-	-	-	-
18	125,000	224.76	-	225.51	229.76	241.51	-	-	-	-	-
19	150,000	268.26	-	269.01	273.26	285.01	-	-	-	-	-
20	175,000	311.76	-	312.51	316.76	328.51	-	-	-	-	-
21	200,000	355.26	-	356.01	360.26	372.01	-	-	-	-	-
22	250,000	442.26	-	443.01	447.26	459.01	-	-	-	-	-
23	500,000	877.26	-	878.01	882.26	894.01	-	-	-	-	-
24	1,000,000	1,747.26	-	1,748.01	1,752.26	1,764.01	-	-	-	-	-
25	2,000,000	3,487.26	-	3,488.01	3,492.26	3,504.01	-	-	-	-	-
26	3,000,000	5,227.26	-	5,228.01	5,232.26	5,244.01	-	-	-	-	-
27	4,000,000	6,967.26	-	6,968.01	6,972.26	6,984.01	-	-	-	-	-
28	5,000,000	8,707.26	-	8,708.01	8,712.26	8,724.01	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	2	-	32	19	9	-	-	-	-	-
32											
33	AVG. USE (GAL.):	48,354	-	99,038	87,722	111,981	-	-	-	-	-
34	MONTHLY BILL:	\$ 91.40	\$ -	\$ 180.34	\$ 164.90	\$ 218.86	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	18,500	-	70,452	60,667	80,667	-	-	-	-	-
37	MONTHLY BILL:	\$ 39.45	\$ -	\$ 130.60	\$ 117.82	\$ 164.37	\$ -	\$ -	\$ -	\$ -	\$ -

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
BILLING ANALYSIS

DOCKET NO. W-01303A-05-0405
SCHEDULE TJC-8
PAGE 6 OF 36

MUMMY MOUNTAIN RESIDENTIAL CUSTOMERS - RUCO RECOMMENDED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ 8.00	\$ 8.35	\$ 13.35	\$ 26.35	\$ 41.35	\$ 77.35	\$ 128.35	\$ 256.60	\$ 512.80	\$ 1,025.20
2	1,000	8.72	9.07	14.07	27.07	42.07	78.07	129.07	257.32	513.52	1,025.92
3	2,000	9.44	9.79	14.79	27.79	42.79	78.79	129.79	258.04	514.24	1,026.64
4	3,000	10.16	10.51	15.51	28.51	43.51	79.51	130.51	258.76	514.96	1,027.36
5	4,000	10.88	11.23	16.23	29.23	44.23	80.23	131.23	259.48	515.68	1,028.08
6	5,000	11.60	11.95	16.95	29.95	44.95	80.95	131.95	260.20	516.40	1,028.80
7	6,000	12.32	12.67	17.67	30.67	45.67	81.67	132.67	260.92	517.12	1,029.52
8	7,000	13.04	13.39	18.39	31.39	46.39	82.39	133.39	261.64	517.84	1,030.24
9	8,000	13.76	14.11	19.11	32.11	47.11	83.11	134.11	262.36	518.56	1,030.96
10	9,000	14.48	14.83	19.83	32.83	47.83	83.83	134.83	263.08	519.28	1,031.68
11	10,000	15.20	15.55	20.55	33.55	48.55	84.55	135.55	263.80	520.00	1,032.40
12	15,000	18.80	19.15	24.15	37.15	52.15	88.15	139.15	267.40	523.60	1,036.00
13	20,000	22.40	22.75	27.75	40.75	55.75	91.75	142.75	271.00	527.20	1,039.60
14	25,000	26.00	26.35	31.35	44.35	59.35	95.35	146.35	274.60	530.80	1,043.20
15	50,000	62.00	62.35	67.35	80.35	95.35	131.35	182.35	310.60	566.80	1,079.20
16	75,000	98.00	98.35	103.35	116.35	131.35	167.35	218.35	346.60	602.80	1,115.20
17	100,000	145.60	145.95	150.95	163.95	178.95	214.95	265.95	394.20	650.40	1,162.80
18	125,000	196.10	196.45	201.45	214.45	229.45	265.45	316.45	444.70	700.90	1,213.30
19	150,000	246.60	246.95	251.95	264.95	279.95	315.95	366.95	495.20	751.40	1,263.80
20	175,000	297.10	297.45	302.45	315.45	330.45	366.45	417.45	545.70	801.90	1,314.30
21	200,000	347.60	347.95	352.95	365.95	380.95	416.95	467.95	596.20	852.40	1,364.80
22	250,000	448.60	448.95	453.95	466.95	481.95	517.95	568.95	697.20	953.40	1,465.80
23	500,000	953.60	953.95	958.95	971.95	986.95	1,022.95	1,073.95	1,202.20	1,458.40	1,970.80
24	1,000,000	1,963.60	1,963.95	1,968.95	1,981.95	1,996.95	2,032.95	2,083.95	2,212.20	2,468.40	2,980.80
25	2,000,000	3,983.60	3,983.95	3,988.95	4,001.95	4,016.95	4,052.95	4,103.95	4,232.20	4,488.40	5,000.80
26	3,000,000	6,003.60	6,003.95	6,008.95	6,021.95	6,036.95	6,072.95	6,123.95	6,252.20	6,508.40	7,020.80
27	4,000,000	8,023.60	8,023.95	8,028.95	8,041.95	8,056.95	8,092.95	8,143.95	8,272.20	8,528.40	9,040.80
28	5,000,000	10,043.60	10,043.95	10,048.95	10,061.95	10,076.95	10,112.95	10,163.95	10,292.20	10,548.40	11,060.80
29											
30											
31	AVG. NO. OF CUST:	2	-	32	19	9	-	-	-	-	-
32											
33	AVG. USE (GAL.):	48,354	-	99,038	87,722	111,981	-	-	-	-	-
34	MONTHLY BILL:	\$ 59.63	\$ -	\$ 149.01	\$ 139.15	\$ 203.15	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	18,500	-	70,452	60,667	80,667	-	-	-	-	-
37	MONTHLY BILL:	\$ 21.32	\$ -	\$ 96.80	\$ 95.71	\$ 139.90	\$ -	\$ -	\$ -	\$ -	\$ -

MUMMY MOUNTAIN RESIDENTIAL CUSTOMERS - RUCO RECOMMENDED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ (1.00)	\$ -	\$ 3.60	\$ 12.35	\$ 15.60	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	(0.28)	-	4.32	13.07	16.32	-	-	-	-	-
3	2,000	(1.30)	-	3.30	12.05	15.30	-	-	-	-	-
4	3,000	(2.32)	-	2.28	11.03	14.28	-	-	-	-	-
5	4,000	(3.34)	-	1.26	10.01	13.26	-	-	-	-	-
6	5,000	(4.36)	-	0.24	8.99	12.24	-	-	-	-	-
7	6,000	(5.38)	-	(0.78)	7.97	11.22	-	-	-	-	-
8	7,000	(6.40)	-	(1.80)	6.95	10.20	-	-	-	-	-
9	8,000	(7.42)	-	(2.82)	5.93	9.18	-	-	-	-	-
10	9,000	(8.44)	-	(3.84)	4.91	8.16	-	-	-	-	-
11	10,000	(9.46)	-	(4.86)	3.89	7.14	-	-	-	-	-
12	15,000	(14.56)	-	(9.96)	(1.21)	2.04	-	-	-	-	-
13	20,000	(19.66)	-	(15.06)	(6.31)	(3.06)	-	-	-	-	-
14	25,000	(24.76)	-	(20.16)	(11.41)	(8.16)	-	-	-	-	-
15	50,000	(32.26)	-	(27.66)	(18.91)	(15.66)	-	-	-	-	-
16	75,000	(39.76)	-	(35.16)	(26.41)	(23.16)	-	-	-	-	-
17	100,000	(35.66)	-	(31.06)	(22.31)	(19.06)	-	-	-	-	-
18	125,000	(28.66)	-	(24.06)	(15.31)	(12.06)	-	-	-	-	-
19	150,000	(21.66)	-	(17.06)	(8.31)	(5.06)	-	-	-	-	-
20	175,000	(14.66)	-	(10.06)	(1.31)	1.94	-	-	-	-	-
21	200,000	(7.66)	-	(3.06)	5.69	8.94	-	-	-	-	-
22	250,000	6.34	-	10.94	19.69	22.94	-	-	-	-	-
23	500,000	76.34	-	80.94	89.69	92.94	-	-	-	-	-
24	1,000,000	216.34	-	220.94	229.69	232.94	-	-	-	-	-
25	2,000,000	496.34	-	500.94	509.69	512.94	-	-	-	-	-
26	3,000,000	776.34	-	780.94	789.69	792.94	-	-	-	-	-
27	4,000,000	1,056.34	-	1,060.94	1,069.69	1,072.94	-	-	-	-	-
28	5,000,000	1,336.34	-	1,340.94	1,349.69	1,352.94	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	2	-	32	19	9	-	-	-	-	-
32											
33	AVG. USE (GAL.):	22,245	-	59,895	181,724	133,510	-	-	-	-	-
34	MONTHLY BILL:	\$ (31.77)	\$ -	\$ (31.33)	\$ (25.75)	\$ (15.71)	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	18,500	-	70,452	60,667	80,667	-	-	-	-	-
37	MONTHLY BILL:	\$ (18.13)	\$ -	\$ (33.80)	\$ (22.11)	\$ (24.47)	\$ -	\$ -	\$ -	\$ -	\$ -

MUMMY MOUNTAIN RESIDENTIAL CUSTOMERS - RUCO RECOMMENDED CHANGES EXPRESSED AS A PERCENTAGE

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	-11.1%	-	36.9%	88.2%	60.6%	-	-	-	-	-
2	1,000	-3.1%	-	44.3%	93.4%	63.4%	-	-	-	-	-
3	2,000	-12.1%	-	28.7%	76.6%	55.7%	-	-	-	-	-
4	3,000	-18.6%	-	17.2%	63.1%	48.9%	-	-	-	-	-
5	4,000	-23.5%	-	8.4%	52.1%	42.8%	-	-	-	-	-
6	5,000	-27.3%	-	1.4%	42.9%	37.4%	-	-	-	-	-
7	6,000	-30.4%	-	-4.2%	35.1%	32.6%	-	-	-	-	-
8	7,000	-32.9%	-	-8.9%	28.4%	28.2%	-	-	-	-	-
9	8,000	-35.0%	-	-12.9%	22.7%	24.2%	-	-	-	-	-
10	9,000	-36.8%	-	-16.2%	17.6%	20.6%	-	-	-	-	-
11	10,000	-38.4%	-	-19.1%	13.1%	17.2%	-	-	-	-	-
12	15,000	-43.6%	-	-29.2%	-3.2%	4.1%	-	-	-	-	-
13	20,000	-46.7%	-	-35.2%	-13.4%	-5.2%	-	-	-	-	-
14	25,000	-48.8%	-	-39.1%	-20.5%	-12.1%	-	-	-	-	-
15	50,000	-34.2%	-	-29.1%	-19.1%	-14.1%	-	-	-	-	-
16	75,000	-28.9%	-	-25.4%	-18.5%	-15.0%	-	-	-	-	-
17	100,000	-19.7%	-	-17.1%	-12.0%	-9.6%	-	-	-	-	-
18	125,000	-12.8%	-	-10.7%	-6.7%	-5.0%	-	-	-	-	-
19	150,000	-8.1%	-	-6.3%	-3.0%	-1.8%	-	-	-	-	-
20	175,000	-4.7%	-	-3.2%	-0.4%	0.6%	-	-	-	-	-
21	200,000	-2.2%	-	-0.9%	1.6%	2.4%	-	-	-	-	-
22	250,000	1.4%	-	2.5%	4.4%	5.0%	-	-	-	-	-
23	500,000	8.7%	-	9.2%	10.2%	10.4%	-	-	-	-	-
24	1,000,000	12.4%	-	12.6%	13.1%	13.2%	-	-	-	-	-
25	2,000,000	14.2%	-	14.4%	14.6%	14.6%	-	-	-	-	-
26	3,000,000	14.9%	-	14.9%	15.1%	15.1%	-	-	-	-	-
27	4,000,000	15.2%	-	15.2%	15.3%	15.4%	-	-	-	-	-
28	5,000,000	15.3%	-	15.4%	15.5%	15.5%	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	2	-	32	19	9	-	-	-	-	-
32											
33	AVG. USE (GAL.):	48,354	-	99,038	87,722	111,981	-	-	-	-	-
34	MONTHLY BILL:	-34.8%	-	-17.4%	-15.6%	-7.2%	-	-	-	-	-
35											
36	MEDIAN USE (GAL.):	18,500	-	70,452	60,667	80,667	-	-	-	-	-
37	MONTHLY BILL:	-46.0%	-	-25.9%	-18.8%	-14.9%	-	-	-	-	-

PARADISE VALLEY COMMERCIAL CUSTOMERS - PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ 8.41	\$ -	\$ 14.01	\$ 28.02	\$ 44.83	\$ 84.06	\$ 140.10	\$ 280.20	\$ -	\$ -
2	1,000	9.58	-	15.18	29.19	46.00	85.23	141.27	281.37	-	-
3	2,000	10.75	-	16.35	30.36	47.17	86.40	142.44	282.54	-	-
4	3,000	11.92	-	17.52	31.53	48.34	87.57	143.61	283.71	-	-
5	4,000	13.09	-	18.69	32.70	49.51	88.74	144.78	284.88	-	-
6	5,000	14.26	-	19.86	33.87	50.68	89.91	145.95	286.05	-	-
7	6,000	15.43	-	21.03	35.04	51.85	91.08	147.12	287.22	-	-
8	7,000	16.60	-	22.20	36.21	53.02	92.25	148.29	288.39	-	-
9	8,000	17.77	-	23.37	37.38	54.19	93.42	149.46	289.56	-	-
10	9,000	18.94	-	24.54	38.55	55.36	94.59	150.63	290.73	-	-
11	10,000	20.11	-	25.71	39.72	56.53	95.76	151.80	291.90	-	-
12	15,000	25.96	-	31.56	45.57	62.38	101.61	157.65	297.75	-	-
13	20,000	31.81	-	37.41	51.42	68.23	107.46	163.50	303.60	-	-
14	25,000	37.66	-	43.26	57.27	74.08	113.31	169.35	309.45	-	-
15	50,000	66.91	-	72.51	86.52	103.33	142.56	198.60	338.70	-	-
16	75,000	96.16	-	101.76	115.77	132.58	171.81	227.85	367.95	-	-
17	100,000	125.41	-	131.01	145.02	161.83	201.06	257.10	397.20	-	-
18	125,000	154.66	-	160.26	174.27	191.08	230.31	286.35	426.45	-	-
19	150,000	183.91	-	189.51	203.52	220.33	259.56	315.60	455.70	-	-
20	175,000	213.16	-	218.76	232.77	249.58	288.81	344.85	484.95	-	-
21	200,000	242.41	-	248.01	262.02	278.83	318.06	374.10	514.20	-	-
22	250,000	300.91	-	306.51	320.52	337.33	376.56	432.60	572.70	-	-
23	500,000	622.41	-	628.01	642.02	658.83	698.06	754.10	894.20	-	-
24	1,000,000	1,352.41	-	1,358.01	1,372.02	1,388.83	1,428.06	1,484.10	1,624.20	-	-
25	2,000,000	2,812.41	-	2,818.01	2,832.02	2,848.83	2,888.06	2,944.10	3,084.20	-	-
26	3,000,000	4,272.41	-	4,278.01	4,292.02	4,308.83	4,348.06	4,404.10	4,544.20	-	-
27	4,000,000	5,732.41	-	5,738.01	5,752.02	5,768.83	5,808.06	5,864.10	6,004.20	-	-
28	5,000,000	7,192.41	-	7,198.01	7,212.02	7,228.83	7,268.06	7,324.10	7,464.20	-	-
29											
30											
31	AVG. NO. OF CUST:	37	-	41	22	116	12	1	4	-	-
32											
33	AVG. USE (GAL.):	5,996	-	73,194	101,275	319,228	415,396	-	1,558,313	-	-
34	MONTHLY BILL:	\$ 15.42	\$ -	\$ 99.65	\$ 146.51	\$ 418.33	\$ 574.54	\$ 140.10	\$ 2,439.34	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	-	-	30,000	60,200	100,205	12,500	-	78,000	-	-
37	MONTHLY BILL:	\$ -	\$ -	\$ 49.11	\$ 98.45	\$ 162.07	\$ 98.69	\$ -	\$ 371.46	\$ -	\$ -

PARADISE VALLEY COMMERCIAL CUSTOMERS - RUCO RECOMMENDED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$8.00	\$8.35	\$13.35	\$26.35	\$41.35	\$77.35	\$128.35	\$256.60	\$512.80	\$1,025.20
2	1,000	9.06	9.41	14.41	27.41	42.41	78.41	129.41	257.66	513.86	1,026.26
3	2,000	10.12	10.47	15.47	28.47	43.47	79.47	130.47	258.72	514.92	1,027.32
4	3,000	11.18	11.53	16.53	29.53	44.53	80.53	131.53	259.78	515.98	1,028.38
5	4,000	12.24	12.59	17.59	30.59	45.59	81.59	132.59	260.84	517.04	1,029.44
6	5,000	13.30	13.65	18.65	31.65	46.65	82.65	133.65	261.90	518.10	1,030.50
7	6,000	14.36	14.71	19.71	32.71	47.71	83.71	134.71	262.96	519.16	1,031.56
8	7,000	15.42	15.77	20.77	33.77	48.77	84.77	135.77	264.02	520.22	1,032.62
9	8,000	16.48	16.83	21.83	34.83	49.83	85.83	136.83	265.08	521.28	1,033.68
10	9,000	17.54	17.89	22.89	35.89	50.89	86.89	137.89	266.14	522.34	1,034.74
11	10,000	18.60	18.95	23.95	36.95	51.95	87.95	138.95	267.20	523.40	1,035.80
12	15,000	23.90	24.25	29.25	42.25	57.25	93.25	144.25	272.50	528.70	1,041.10
13	20,000	29.20	29.55	34.55	47.55	62.55	98.55	149.55	277.80	534.00	1,046.40
14	25,000	34.50	34.85	39.85	52.85	67.85	103.85	154.85	283.10	539.30	1,051.70
15	50,000	61.00	61.35	66.35	79.35	94.35	130.35	181.35	309.60	565.80	1,078.20
16	75,000	87.50	87.85	92.85	105.85	120.85	156.85	207.85	336.10	592.30	1,104.70
17	100,000	114.00	114.35	119.35	132.35	147.35	183.35	234.35	362.60	618.80	1,131.20
18	125,000	140.50	140.85	145.85	158.85	173.85	209.85	260.85	389.10	645.30	1,157.70
19	150,000	167.00	167.35	172.35	185.35	200.35	236.35	287.35	415.60	671.80	1,184.20
20	175,000	193.50	193.85	198.85	211.85	226.85	262.85	313.85	442.10	698.30	1,210.70
21	200,000	220.00	220.35	225.35	238.35	253.35	289.35	340.35	468.60	724.80	1,237.20
22	250,000	273.00	273.35	278.35	291.35	306.35	342.35	393.35	521.60	777.80	1,290.20
23	500,000	567.00	567.35	572.35	585.35	600.35	636.35	687.35	815.60	1,071.80	1,584.20
24	1,000,000	1,242.00	1,242.35	1,247.35	1,260.35	1,275.35	1,311.35	1,362.35	1,490.60	1,746.80	2,259.20
25	2,000,000	2,592.00	2,592.35	2,597.35	2,610.35	2,625.35	2,661.35	2,712.35	2,840.60	3,096.80	3,609.20
26	3,000,000	3,942.00	3,942.35	3,947.35	3,960.35	3,975.35	4,011.35	4,062.35	4,190.60	4,446.80	4,959.20
27	4,000,000	5,292.00	5,292.35	5,297.35	5,310.35	5,325.35	5,361.35	5,412.35	5,540.60	5,796.80	6,309.20
28	5,000,000	6,642.00	6,642.35	6,647.35	6,660.35	6,675.35	6,711.35	6,762.35	6,890.60	7,146.80	7,659.20
29											
30											
31	AVG. NO. OF CUST:	37	-	41	22	116	12	1	4	-	-
32											
33	AVG. USE (GAL.):	5,996	-	73,194	101,275	319,228	415,396	-	1,558,313	-	-
34	MONTHLY BILL:	\$ 14.36	\$ -	\$ 90.94	\$ 133.70	\$ 379.73	\$ 522.13	\$ 128.35	\$ 2,244.32	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	-	-	30,000	60,200	100,205	12,500	-	78,000	-	-
37	MONTHLY BILL:	\$ -	\$ -	\$ 45.15	\$ 90.16	\$ 147.57	\$ 90.60	\$ -	\$ 339.28	\$ -	\$ -

PARADISE VALLEY COMMERCIAL CUSTOMERS - RUCO RECOMMENDED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ (0.41)	\$ -	\$ (0.66)	\$ (1.67)	\$ (3.48)	\$ (6.71)	\$ (11.75)	\$ (23.60)	\$ -	\$ -
2	1,000	(0.52)	-	(0.77)	(1.78)	(3.59)	(6.82)	(11.86)	(23.71)	-	-
3	2,000	(0.63)	-	(0.88)	(1.89)	(3.70)	(6.93)	(11.97)	(23.82)	-	-
4	3,000	(0.74)	-	(0.99)	(2.00)	(3.81)	(7.04)	(12.08)	(23.93)	-	-
5	4,000	(0.85)	-	(1.10)	(2.11)	(3.92)	(7.15)	(12.19)	(24.04)	-	-
6	5,000	(0.96)	-	(1.21)	(2.22)	(4.03)	(7.26)	(12.30)	(24.15)	-	-
7	6,000	(1.07)	-	(1.32)	(2.33)	(4.14)	(7.37)	(12.41)	(24.26)	-	-
8	7,000	(1.18)	-	(1.43)	(2.44)	(4.25)	(7.48)	(12.52)	(24.37)	-	-
9	8,000	(1.29)	-	(1.54)	(2.55)	(4.36)	(7.59)	(12.63)	(24.48)	-	-
10	9,000	(1.40)	-	(1.65)	(2.66)	(4.47)	(7.70)	(12.74)	(24.59)	-	-
11	10,000	(1.51)	-	(1.76)	(2.77)	(4.58)	(7.81)	(12.85)	(24.70)	-	-
12	15,000	(2.06)	-	(2.31)	(3.32)	(5.13)	(8.36)	(13.40)	(25.25)	-	-
13	20,000	(2.61)	-	(2.86)	(3.87)	(5.68)	(8.91)	(13.95)	(25.80)	-	-
14	25,000	(3.16)	-	(3.41)	(4.42)	(6.23)	(9.46)	(14.50)	(26.35)	-	-
15	50,000	(5.91)	-	(6.16)	(7.17)	(8.98)	(12.21)	(17.25)	(29.10)	-	-
16	75,000	(8.66)	-	(8.91)	(9.92)	(11.73)	(14.96)	(20.00)	(31.85)	-	-
17	100,000	(11.41)	-	(11.66)	(12.67)	(14.48)	(17.71)	(22.75)	(34.60)	-	-
18	125,000	(14.16)	-	(14.41)	(15.42)	(17.23)	(20.46)	(25.50)	(37.35)	-	-
19	150,000	(16.91)	-	(17.16)	(18.17)	(19.98)	(23.21)	(28.25)	(40.10)	-	-
20	175,000	(19.66)	-	(19.91)	(20.92)	(22.73)	(25.96)	(31.00)	(42.85)	-	-
21	200,000	(22.41)	-	(22.66)	(23.67)	(25.48)	(28.71)	(33.75)	(45.60)	-	-
22	250,000	(27.91)	-	(28.16)	(29.17)	(30.98)	(34.21)	(39.25)	(51.10)	-	-
23	500,000	(55.41)	-	(55.66)	(56.67)	(58.48)	(61.71)	(66.75)	(78.60)	-	-
24	1,000,000	(110.41)	-	(110.66)	(111.67)	(113.48)	(116.71)	(121.75)	(133.60)	-	-
25	2,000,000	(220.41)	-	(220.66)	(221.67)	(223.48)	(226.71)	(231.75)	(243.60)	-	-
26	3,000,000	(330.41)	-	(330.66)	(331.67)	(333.48)	(336.71)	(341.75)	(353.60)	-	-
27	4,000,000	(440.41)	-	(440.66)	(441.67)	(443.48)	(446.71)	(451.75)	(463.60)	-	-
28	5,000,000	(550.41)	-	(550.66)	(551.67)	(553.48)	(556.71)	(561.75)	(573.60)	-	-
29											
30											
31	AVG. NO. OF CUST:	37	-	41	22	116	12	1	4	-	-
32											
33	AVG. USE (GAL.):	5,996	-	73,194	101,275	319,228	415,396	-	1,558,313	-	-
34	MONTHLY BILL:	\$ (1.06)	\$ -	\$ (8.71)	\$ (12.81)	\$ (38.60)	\$ (52.41)	\$ (11.75)	\$ (195.02)	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	-	-	30,000	60,200	100,205	12,500	-	78,000	-	-
37	MONTHLY BILL:	\$ -	\$ -	\$ (3.96)	\$ (8.29)	\$ (14.50)	\$ (8.09)	\$ -	\$ (32.18)	\$ -	\$ -

PARADISE VALLEY COMMERCIAL CUSTOMERS - RUCO RECOMMENDED CHANGES EXPRESSED AS A PERCENTAGE

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	-4.9%	-	-4.7%	-6.0%	-7.8%	-8.0%	-8.4%	-8.4%	-	-
2	1,000	-5.4%	-	-5.1%	-6.1%	-7.8%	-8.0%	-8.4%	-8.4%	-	-
3	2,000	-5.9%	-	-5.4%	-6.2%	-7.8%	-8.0%	-8.4%	-8.4%	-	-
4	3,000	-6.2%	-	-5.7%	-6.3%	-7.9%	-8.0%	-8.4%	-8.4%	-	-
5	4,000	-6.5%	-	-5.9%	-6.5%	-7.9%	-8.1%	-8.4%	-8.4%	-	-
6	5,000	-6.7%	-	-6.1%	-6.6%	-8.0%	-8.1%	-8.4%	-8.4%	-	-
7	6,000	-6.9%	-	-6.3%	-6.6%	-8.0%	-8.1%	-8.4%	-8.4%	-	-
8	7,000	-7.1%	-	-6.4%	-6.7%	-8.0%	-8.1%	-8.4%	-8.4%	-	-
9	8,000	-7.3%	-	-6.6%	-6.8%	-8.0%	-8.1%	-8.4%	-8.5%	-	-
10	9,000	-7.4%	-	-6.7%	-6.9%	-8.1%	-8.1%	-8.5%	-8.5%	-	-
11	10,000	-7.5%	-	-6.8%	-7.0%	-8.1%	-8.2%	-8.5%	-8.5%	-	-
12	15,000	-7.9%	-	-7.3%	-7.3%	-8.2%	-8.2%	-8.5%	-8.5%	-	-
13	20,000	-8.2%	-	-7.6%	-7.5%	-8.3%	-8.3%	-8.5%	-8.5%	-	-
14	25,000	-8.4%	-	-7.9%	-7.7%	-8.4%	-8.3%	-8.6%	-8.5%	-	-
15	50,000	-8.8%	-	-8.5%	-8.3%	-8.7%	-8.6%	-8.7%	-8.6%	-	-
16	75,000	-9.0%	-	-8.8%	-8.6%	-8.8%	-8.7%	-8.8%	-8.7%	-	-
17	100,000	-9.1%	-	-8.9%	-8.7%	-8.9%	-8.8%	-8.8%	-8.7%	-	-
18	125,000	-9.2%	-	-9.0%	-8.8%	-9.0%	-8.9%	-8.9%	-8.8%	-	-
19	150,000	-9.2%	-	-9.1%	-8.9%	-9.1%	-9.0%	-9.0%	-8.8%	-	-
20	175,000	-9.2%	-	-9.1%	-9.0%	-9.1%	-9.0%	-9.0%	-8.8%	-	-
21	200,000	-9.2%	-	-9.1%	-9.0%	-9.1%	-9.0%	-9.0%	-8.9%	-	-
22	250,000	-9.3%	-	-9.2%	-9.1%	-9.2%	-9.1%	-9.1%	-8.9%	-	-
23	500,000	-8.9%	-	-8.9%	-8.8%	-8.9%	-8.8%	-8.9%	-8.8%	-	-
24	1,000,000	-8.2%	-	-8.1%	-8.1%	-8.2%	-8.2%	-8.2%	-8.2%	-	-
25	2,000,000	-7.8%	-	-7.8%	-7.8%	-7.8%	-7.8%	-7.9%	-7.9%	-	-
26	3,000,000	-7.7%	-	-7.7%	-7.7%	-7.7%	-7.7%	-7.8%	-7.8%	-	-
27	4,000,000	-7.7%	-	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%	-7.7%	-	-
28	5,000,000	-7.7%	-	-7.7%	-7.6%	-7.7%	-7.7%	-7.7%	-7.7%	-	-
29											
30											
31	AVG. NO. OF CUST:	37	-	41	22	116	12	1	4	-	-
32											
33	AVG. USE (GAL.):	5,996	-	73,194	101,275	319,228	415,396	0	1,558,313	-	-
34	MONTHLY BILL:	-6.9%	-	-8.7%	-8.7%	-9.2%	-9.1%	-8.4%	-8.0%	-	-
35											
36	MEDIAN USE (GAL.):	-	-	30,000	60,200	100,205	12,500	-	78,000	-	-
37	MONTHLY BILL:	-	-	-8.1%	-8.4%	-8.9%	-8.2%	-	-8.7%	-	-

PARADISE VALLEY TURF CUSTOMERS - PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 3 - INCH	(H) 4 - INCH	(I) 6 - INCH	(J) 8 - INCH	(K) 10 - INCH
1	0	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2	1,000	-	-	-	-	-	84.06	84.06	-	-	-	-
3	2,000	-	-	-	-	-	84.96	84.96	-	-	-	-
4	3,000	-	-	-	-	-	85.86	85.86	-	-	-	-
5	4,000	-	-	-	-	-	86.76	86.76	-	-	-	-
6	5,000	-	-	-	-	-	87.66	87.66	-	-	-	-
7	6,000	-	-	-	-	-	88.56	88.56	-	-	-	-
8	7,000	-	-	-	-	-	89.46	89.46	-	-	-	-
9	8,000	-	-	-	-	-	90.36	90.36	-	-	-	-
10	9,000	-	-	-	-	-	91.26	91.26	-	-	-	-
11	10,000	-	-	-	-	-	92.16	92.16	-	-	-	-
12	15,000	-	-	-	-	-	93.06	93.06	-	-	-	-
13	20,000	-	-	-	-	-	97.56	97.56	-	-	-	-
14	25,000	-	-	-	-	-	102.06	102.06	-	-	-	-
15	50,000	-	-	-	-	-	106.56	106.56	-	-	-	-
16	75,000	-	-	-	-	-	129.06	129.06	-	-	-	-
17	100,000	-	-	-	-	-	151.56	151.56	-	-	-	-
18	125,000	-	-	-	-	-	174.06	174.06	-	-	-	-
19	150,000	-	-	-	-	-	196.56	196.56	-	-	-	-
20	175,000	-	-	-	-	-	219.06	219.06	-	-	-	-
21	200,000	-	-	-	-	-	241.56	241.56	-	-	-	-
22	250,000	-	-	-	-	-	264.06	264.06	-	-	-	-
23	500,000	-	-	-	-	-	309.06	309.06	-	-	-	-
24	1,000,000	-	-	-	-	-	534.06	534.06	-	-	-	-
25	2,000,000	-	-	-	-	-	984.06	984.06	-	-	-	-
26	3,000,000	-	-	-	-	-	1,884.06	1,884.06	-	-	-	-
27	4,000,000	-	-	-	-	-	2,784.06	2,784.06	-	-	-	-
28	5,000,000	-	-	-	-	-	3,684.06	3,684.06	-	-	-	-
29		-	-	-	-	-	4,584.06	4,584.06	-	-	-	-
30		-	-	-	-	-			-	-	-	-
31	AVG. NO. OF CUST:	-	-	-	-	-	1	1	-	-	-	-
32		-	-	-	-	-			-	-	-	-
33	AVG. USE (GAL.):	-	-	-	-	-	6,726.800	813.000	-	-	-	-
34	MONTHLY BILL:	\$	\$	\$	\$	\$	\$ 6,138.18	\$ 815.76	\$	\$	\$	\$
35		-	-	-	-	-			-	-	-	-
36	MEDIAN USE (GAL.):	-	-	-	-	-	9,109,000	607,500	-	-	-	-
37	MONTHLY BILL:	\$	\$	\$	\$	\$	\$ 8,282.16	\$ 630.81	\$	\$	\$	\$

PARADISE VALLEY TURF CUSTOMERS - RUCO RECOMMENDED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 3 - INCH	(H) 4 - INCH	(I) 6 - INCH	(J) 8 - INCH	(K) 10 - INCH
1	0	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2	1,000	-	-	-	-	-	77.70	77.70	-	-	-	-
3	2,000	-	-	-	-	-	78.52	78.52	-	-	-	-
4	3,000	-	-	-	-	-	79.34	79.34	-	-	-	-
5	4,000	-	-	-	-	-	80.16	80.16	-	-	-	-
6	5,000	-	-	-	-	-	80.98	80.98	-	-	-	-
7	6,000	-	-	-	-	-	81.80	81.80	-	-	-	-
8	7,000	-	-	-	-	-	82.62	82.62	-	-	-	-
9	8,000	-	-	-	-	-	83.44	83.44	-	-	-	-
10	9,000	-	-	-	-	-	84.26	84.26	-	-	-	-
11	10,000	-	-	-	-	-	85.08	85.08	-	-	-	-
12	15,000	-	-	-	-	-	85.90	85.90	-	-	-	-
13	20,000	-	-	-	-	-	90.00	90.00	-	-	-	-
14	25,000	-	-	-	-	-	94.10	94.10	-	-	-	-
15	50,000	-	-	-	-	-	98.20	98.20	-	-	-	-
16	75,000	-	-	-	-	-	118.70	118.70	-	-	-	-
17	100,000	-	-	-	-	-	139.20	139.20	-	-	-	-
18	125,000	-	-	-	-	-	159.70	159.70	-	-	-	-
19	150,000	-	-	-	-	-	180.20	180.20	-	-	-	-
20	175,000	-	-	-	-	-	200.70	200.70	-	-	-	-
21	200,000	-	-	-	-	-	221.20	221.20	-	-	-	-
22	250,000	-	-	-	-	-	241.70	241.70	-	-	-	-
23	500,000	-	-	-	-	-	282.70	282.70	-	-	-	-
24	1,000,000	-	-	-	-	-	487.70	487.70	-	-	-	-
25	2,000,000	-	-	-	-	-	897.70	897.70	-	-	-	-
26	3,000,000	-	-	-	-	-	1,717.70	1,717.70	-	-	-	-
27	4,000,000	-	-	-	-	-	2,537.70	2,537.70	-	-	-	-
28	5,000,000	-	-	-	-	-	3,357.70	3,357.70	-	-	-	-
29		-	-	-	-	-	4,177.70	4,177.70	-	-	-	-
30		-	-	-	-	-			-	-	-	-
31	AVG. NO. OF CUST:	-	-	-	-	-	1	1	-	-	-	-
32		-	-	-	-	-			-	-	-	-
33	AVG. USE (GAL.):	-	-	-	-	-	6,726,800	813,000	-	-	-	-
34	MONTHLY BILL:	\$	\$	\$	\$	\$	\$ 5,593.68	\$ 744.36	\$	\$	\$	\$
35		-	-	-	-	-			-	-	-	-
36	MEDIAN USE (GAL.):	-	-	-	-	-	9,109,000	607,500	-	-	-	-
37	MONTHLY BILL:	\$	\$	\$	\$	\$	\$ 7,547.08	\$ 575.85	\$	\$	\$	\$

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 BILLING ANALYSIS

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-8
 PAGE 15 OF 36

PARADISE VALLEY TURF CUSTOMERS - RUCO RECOMMENDED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 3 - INCH	(H) 4 - INCH	(I) 6 - INCH	(J) 8 - INCH	(K) 10 - INCH
1	0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (6.36)	\$ (6.36)	\$ -	\$ -	\$ -	\$ -
2	1,000	-	-	-	-	-	(6.44)	(6.44)	-	-	-	-
3	2,000	-	-	-	-	-	(6.52)	(6.52)	-	-	-	-
4	3,000	-	-	-	-	-	(6.60)	(6.60)	-	-	-	-
5	4,000	-	-	-	-	-	(6.68)	(6.68)	-	-	-	-
6	5,000	-	-	-	-	-	(6.76)	(6.76)	-	-	-	-
7	6,000	-	-	-	-	-	(6.84)	(6.84)	-	-	-	-
8	7,000	-	-	-	-	-	(6.92)	(6.92)	-	-	-	-
9	8,000	-	-	-	-	-	(7.00)	(7.00)	-	-	-	-
10	9,000	-	-	-	-	-	(7.08)	(7.08)	-	-	-	-
11	10,000	-	-	-	-	-	(7.16)	(7.16)	-	-	-	-
12	15,000	-	-	-	-	-	(7.56)	(7.56)	-	-	-	-
13	20,000	-	-	-	-	-	(7.96)	(7.96)	-	-	-	-
14	25,000	-	-	-	-	-	(8.36)	(8.36)	-	-	-	-
15	50,000	-	-	-	-	-	(10.36)	(10.36)	-	-	-	-
16	75,000	-	-	-	-	-	(12.36)	(12.36)	-	-	-	-
17	100,000	-	-	-	-	-	(14.36)	(14.36)	-	-	-	-
18	125,000	-	-	-	-	-	(16.36)	(16.36)	-	-	-	-
19	150,000	-	-	-	-	-	(18.36)	(18.36)	-	-	-	-
20	175,000	-	-	-	-	-	(20.36)	(20.36)	-	-	-	-
21	200,000	-	-	-	-	-	(22.36)	(22.36)	-	-	-	-
22	250,000	-	-	-	-	-	(26.36)	(26.36)	-	-	-	-
23	500,000	-	-	-	-	-	(46.36)	(46.36)	-	-	-	-
24	1,000,000	-	-	-	-	-	(86.36)	(86.36)	-	-	-	-
25	2,000,000	-	-	-	-	-	(166.36)	(166.36)	-	-	-	-
26	3,000,000	-	-	-	-	-	(246.36)	(246.36)	-	-	-	-
27	4,000,000	-	-	-	-	-	(326.36)	(326.36)	-	-	-	-
28	5,000,000	-	-	-	-	-	(406.36)	(406.36)	-	-	-	-
29												
30												
31	AVG. NO. OF CUST:	-	-	-	-	-	1	1	-	-	-	-
32												
33	AVG. USE (GAL.):	-	-	-	-	-	6,726,800	813,000	-	-	-	-
34	MONTHLY BILL:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (544.50)	\$ (71.40)	\$ -	\$ -	\$ -	\$ -
35												
36	MEDIAN USE (GAL.):	-	-	-	-	-	9,109,000	607,500	-	-	-	-
37	MONTHLY BILL:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (735.08)	\$ (54.96)	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY COMMERCIAL CUSTOMERS - RUCO RECOMMENDED CHANGES EXPRESSED AS A PERCENTAGE

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 3 - INCH	(H) 4 - INCH	(I) 6 - INCH	(J) 8 - INCH	(K) 10 - INCH
1	0	-	-	-	-	-	-7.6%	-7.6%	-	-	-	-
2	1,000	-	-	-	-	-	-7.6%	-7.6%	-	-	-	-
3	2,000	-	-	-	-	-	-7.6%	-7.6%	-	-	-	-
4	3,000	-	-	-	-	-	-7.6%	-7.6%	-	-	-	-
5	4,000	-	-	-	-	-	-7.6%	-7.6%	-	-	-	-
6	5,000	-	-	-	-	-	-7.6%	-7.6%	-	-	-	-
7	6,000	-	-	-	-	-	-7.6%	-7.6%	-	-	-	-
8	7,000	-	-	-	-	-	-7.7%	-7.7%	-	-	-	-
9	8,000	-	-	-	-	-	-7.7%	-7.7%	-	-	-	-
10	9,000	-	-	-	-	-	-7.7%	-7.7%	-	-	-	-
11	10,000	-	-	-	-	-	-7.7%	-7.7%	-	-	-	-
12	15,000	-	-	-	-	-	-7.7%	-7.7%	-	-	-	-
13	20,000	-	-	-	-	-	-7.8%	-7.8%	-	-	-	-
14	25,000	-	-	-	-	-	-7.8%	-7.8%	-	-	-	-
15	50,000	-	-	-	-	-	-8.0%	-8.0%	-	-	-	-
16	75,000	-	-	-	-	-	-8.2%	-8.2%	-	-	-	-
17	100,000	-	-	-	-	-	-8.3%	-8.3%	-	-	-	-
18	125,000	-	-	-	-	-	-8.3%	-8.3%	-	-	-	-
19	150,000	-	-	-	-	-	-8.4%	-8.4%	-	-	-	-
20	175,000	-	-	-	-	-	-8.4%	-8.4%	-	-	-	-
21	200,000	-	-	-	-	-	-8.5%	-8.5%	-	-	-	-
22	250,000	-	-	-	-	-	-8.5%	-8.5%	-	-	-	-
23	500,000	-	-	-	-	-	-8.7%	-8.7%	-	-	-	-
24	1,000,000	-	-	-	-	-	-8.8%	-8.8%	-	-	-	-
25	2,000,000	-	-	-	-	-	-8.8%	-8.8%	-	-	-	-
26	3,000,000	-	-	-	-	-	-8.8%	-8.8%	-	-	-	-
27	4,000,000	-	-	-	-	-	-8.9%	-8.9%	-	-	-	-
28	5,000,000	-	-	-	-	-	-8.9%	-8.9%	-	-	-	-
29												
30												
31	AVG. NO. OF CUST:	-	-	-	-	-	1	1	-	-	-	-
32												
33	AVG. USE (GAL.):	-	-	-	-	-	6,726,800	813,000	-	-	-	-
34	MONTHLY BILL:	-	-	-	-	-	-8.9%	-8.8%	-	-	-	-
35												
36	MEDIAN USE (GAL.):	-	-	-	-	-	9,109,000	607,500	-	-	-	-
37	MONTHLY BILL:	-	-	-	-	-	-8.9%	-8.7%	-	-	-	-

PARADISE VALLEY COUNTRY CLUB - PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,817.00	\$ -	\$ -
2	1,000	-	-	-	-	-	-	-	12,817.00	-	-
3	2,000	-	-	-	-	-	-	-	12,817.00	-	-
4	3,000	-	-	-	-	-	-	-	12,817.00	-	-
5	4,000	-	-	-	-	-	-	-	12,817.00	-	-
6	5,000	-	-	-	-	-	-	-	12,817.00	-	-
7	6,000	-	-	-	-	-	-	-	12,817.00	-	-
8	7,000	-	-	-	-	-	-	-	12,817.00	-	-
9	8,000	-	-	-	-	-	-	-	12,817.00	-	-
10	9,000	-	-	-	-	-	-	-	12,817.00	-	-
11	10,000	-	-	-	-	-	-	-	12,817.00	-	-
12	15,000	-	-	-	-	-	-	-	12,817.00	-	-
13	20,000	-	-	-	-	-	-	-	12,817.00	-	-
14	25,000	-	-	-	-	-	-	-	12,817.00	-	-
15	50,000	-	-	-	-	-	-	-	12,817.00	-	-
16	75,000	-	-	-	-	-	-	-	12,817.00	-	-
17	100,000	-	-	-	-	-	-	-	12,817.00	-	-
18	125,000	-	-	-	-	-	-	-	12,817.00	-	-
19	150,000	-	-	-	-	-	-	-	12,817.00	-	-
20	175,000	-	-	-	-	-	-	-	12,817.00	-	-
21	200,000	-	-	-	-	-	-	-	12,817.00	-	-
22	250,000	-	-	-	-	-	-	-	12,817.00	-	-
23	500,000	-	-	-	-	-	-	-	12,817.00	-	-
24	1,000,000	-	-	-	-	-	-	-	12,817.00	-	-
25	2,000,000	-	-	-	-	-	-	-	12,817.00	-	-
26	3,000,000	-	-	-	-	-	-	-	12,817.00	-	-
27	4,000,000	-	-	-	-	-	-	-	12,817.00	-	-
28	5,000,000	-	-	-	-	-	-	-	12,817.00	-	-
29											
30											
31	AVG. NO. OF CUST:	-	-	-	-	-	-	-	1	-	-
32											
33	AVG. USE (GAL.):	-	-	-	-	-	-	-	16,921,916	-	-
34	MONTHLY BILL:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$12,817.00	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	-	-	-	-	-	-	-	15,880,000	-	-
37	MONTHLY BILL:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$12,817.00	\$ -	\$ -

PARADISE VALLEY COUNTRY CLUB - RUGO RECOMMENDED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,731.77	\$ -	\$ -
2	1,000	-	-	-	-	-	-	-	11,731.77	-	-
3	2,000	-	-	-	-	-	-	-	11,731.77	-	-
4	3,000	-	-	-	-	-	-	-	11,731.77	-	-
5	4,000	-	-	-	-	-	-	-	11,731.77	-	-
6	5,000	-	-	-	-	-	-	-	11,731.77	-	-
7	6,000	-	-	-	-	-	-	-	11,731.77	-	-
8	7,000	-	-	-	-	-	-	-	11,731.77	-	-
9	8,000	-	-	-	-	-	-	-	11,731.77	-	-
10	9,000	-	-	-	-	-	-	-	11,731.77	-	-
11	10,000	-	-	-	-	-	-	-	11,731.77	-	-
12	15,000	-	-	-	-	-	-	-	11,731.77	-	-
13	20,000	-	-	-	-	-	-	-	11,731.77	-	-
14	25,000	-	-	-	-	-	-	-	11,731.77	-	-
15	50,000	-	-	-	-	-	-	-	11,731.77	-	-
16	75,000	-	-	-	-	-	-	-	11,731.77	-	-
17	100,000	-	-	-	-	-	-	-	11,731.77	-	-
18	125,000	-	-	-	-	-	-	-	11,731.77	-	-
19	150,000	-	-	-	-	-	-	-	11,731.77	-	-
20	175,000	-	-	-	-	-	-	-	11,731.77	-	-
21	200,000	-	-	-	-	-	-	-	11,731.77	-	-
22	250,000	-	-	-	-	-	-	-	11,731.77	-	-
23	500,000	-	-	-	-	-	-	-	11,731.77	-	-
24	1,000,000	-	-	-	-	-	-	-	11,731.77	-	-
25	2,000,000	-	-	-	-	-	-	-	11,731.77	-	-
26	3,000,000	-	-	-	-	-	-	-	11,731.77	-	-
27	4,000,000	-	-	-	-	-	-	-	11,731.77	-	-
28	5,000,000	-	-	-	-	-	-	-	11,731.77	-	-
29											
30											
31	AVG. NO. OF CUST:	-	-	-	-	-	-	-	1	-	-
32											
33	AVG. USE (GAL.):	-	-	-	-	-	-	-	16,921,916	-	-
34	MONTHLY BILL:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,731.77	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	-	-	-	-	-	-	-	15,880,000	-	-
37	MONTHLY BILL:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,731.77	\$ -	\$ -

PARADISE VALLEY COUNTRY CLUB - RUCO RECOMMENDED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	3,000	\$	\$	\$	\$	\$	\$	\$	\$(1,085.23)	\$	\$
2	4,000	-	-	-	-	-	-	-	(1,085.23)	-	-
3	5,000	-	-	-	-	-	-	-	(1,085.23)	-	-
4	6,000	-	-	-	-	-	-	-	(1,085.23)	-	-
5	7,000	-	-	-	-	-	-	-	(1,085.23)	-	-
6	8,000	-	-	-	-	-	-	-	(1,085.23)	-	-
7	9,000	-	-	-	-	-	-	-	(1,085.23)	-	-
8	10,000	-	-	-	-	-	-	-	(1,085.23)	-	-
9	15,000	-	-	-	-	-	-	-	(1,085.23)	-	-
10	20,000	-	-	-	-	-	-	-	(1,085.23)	-	-
11	25,000	-	-	-	-	-	-	-	(1,085.23)	-	-
12	50,000	-	-	-	-	-	-	-	(1,085.23)	-	-
13	75,000	-	-	-	-	-	-	-	(1,085.23)	-	-
14	100,000	-	-	-	-	-	-	-	(1,085.23)	-	-
15	125,000	-	-	-	-	-	-	-	(1,085.23)	-	-
16	150,000	-	-	-	-	-	-	-	(1,085.23)	-	-
17	175,000	-	-	-	-	-	-	-	(1,085.23)	-	-
18	200,000	-	-	-	-	-	-	-	(1,085.23)	-	-
19	250,000	-	-	-	-	-	-	-	(1,085.23)	-	-
20	500,000	-	-	-	-	-	-	-	(1,085.23)	-	-
21	1,000,000	-	-	-	-	-	-	-	(1,085.23)	-	-
22	2,000,000	-	-	-	-	-	-	-	(1,085.23)	-	-
23	3,000,000	-	-	-	-	-	-	-	(1,085.23)	-	-
24	4,000,000	-	-	-	-	-	-	-	(1,085.23)	-	-
25	5,000,000	-	-	-	-	-	-	-	(1,085.23)	-	-
26	0	-	-	-	-	-	-	-	(1,085.23)	-	-
27	0	-	-	-	-	-	-	-	(1,085.23)	-	-
28	AVG. NO. OF CUST:	-	-	-	-	-	-	-	-	-	-
29		-	-	-	-	-	-	-	-	-	-
30		-	-	-	-	-	-	-	-	-	-
31	AVG. NO. OF CUST:	-	-	-	-	-	-	-	1	-	-
32		-	-	-	-	-	-	-	-	-	-
33	AVG. USE (GAL.):	-	-	-	-	-	-	-	16,921,916	-	-
34	MONTHLY BILL:	\$	\$	\$	\$	\$	\$	\$	\$(1,085.23)	\$	\$
35		-	-	-	-	-	-	-	-	-	-
36	MEDIAN USE (GAL.):	-	-	-	-	-	-	-	15,880,000	-	-
37	MONTHLY BILL:	\$	\$	\$	\$	\$	\$	\$	\$(1,085.23)	\$	\$

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 BILLING ANALYSIS

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-8
 PAGE 21 OF 36

PARADISE VALLEY OTHER METERED CUSTOMERS - PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ 8.41	\$ -	\$ 14.01	\$ -	\$ 44.83	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	9.73	-	15.33	-	46.15	-	-	-	-	-
3	2,000	11.05	-	16.65	-	47.47	-	-	-	-	-
4	3,000	12.37	-	17.97	-	48.79	-	-	-	-	-
5	4,000	13.69	-	19.29	-	50.11	-	-	-	-	-
6	5,000	15.01	-	20.61	-	51.43	-	-	-	-	-
7	6,000	16.33	-	21.93	-	52.75	-	-	-	-	-
8	7,000	17.65	-	23.25	-	54.07	-	-	-	-	-
9	8,000	18.97	-	24.57	-	55.39	-	-	-	-	-
10	9,000	20.29	-	25.89	-	56.71	-	-	-	-	-
11	10,000	21.61	-	27.21	-	58.03	-	-	-	-	-
12	15,000	28.21	-	33.81	-	64.63	-	-	-	-	-
13	20,000	34.81	-	40.41	-	71.23	-	-	-	-	-
14	25,000	41.41	-	47.01	-	77.83	-	-	-	-	-
15	50,000	74.41	-	80.01	-	110.83	-	-	-	-	-
16	75,000	107.41	-	113.01	-	143.83	-	-	-	-	-
17	100,000	140.41	-	146.01	-	176.83	-	-	-	-	-
18	125,000	173.41	-	179.01	-	209.83	-	-	-	-	-
19	150,000	206.41	-	212.01	-	242.83	-	-	-	-	-
20	175,000	239.41	-	245.01	-	275.83	-	-	-	-	-
21	200,000	272.41	-	278.01	-	308.83	-	-	-	-	-
22	250,000	338.41	-	344.01	-	374.83	-	-	-	-	-
23	500,000	668.41	-	674.01	-	704.83	-	-	-	-	-
24	1,000,000	1,328.41	-	1,334.01	-	1,364.83	-	-	-	-	-
25	2,000,000	2,648.41	-	2,654.01	-	2,684.83	-	-	-	-	-
26	3,000,000	3,968.41	-	3,974.01	-	4,004.83	-	-	-	-	-
27	4,000,000	5,288.41	-	5,294.01	-	5,324.83	-	-	-	-	-
28	5,000,000	6,608.41	-	6,614.01	-	6,644.83	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	4	-	9	-	4	-	-	-	-	-
32											
33	AVG. USE (GAL.):	887	-	43,317	-	25,955	-	-	-	-	-
34	MONTHLY BILL:	\$ 9.58	\$ -	\$ 71.19	\$ -	\$ 79.09	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	2,501	-	1,438	-	9,500	-	-	-	-	-
37	MONTHLY BILL:	\$ 11.71	\$ -	\$ 15.91	\$ -	\$ 57.37	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY OTHER METERED CUSTOMERS - RUCO RECOMMENDED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ 8.00	\$ -	\$ 13.35	\$ -	\$ 41.35	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	9.19	-	14.54	-	42.54	-	-	-	-	-
3	2,000	10.38	-	15.73	-	43.73	-	-	-	-	-
4	3,000	11.57	-	16.92	-	44.92	-	-	-	-	-
5	4,000	12.76	-	18.11	-	46.11	-	-	-	-	-
6	5,000	13.95	-	19.30	-	47.30	-	-	-	-	-
7	6,000	15.14	-	20.49	-	48.49	-	-	-	-	-
8	7,000	16.33	-	21.68	-	49.68	-	-	-	-	-
9	8,000	17.52	-	22.87	-	50.87	-	-	-	-	-
10	9,000	18.71	-	24.06	-	52.06	-	-	-	-	-
11	10,000	19.90	-	25.25	-	53.25	-	-	-	-	-
12	15,000	25.85	-	31.20	-	59.20	-	-	-	-	-
13	20,000	31.80	-	37.15	-	65.15	-	-	-	-	-
14	25,000	37.75	-	43.10	-	71.10	-	-	-	-	-
15	50,000	67.50	-	72.85	-	100.85	-	-	-	-	-
16	75,000	97.25	-	102.60	-	130.60	-	-	-	-	-
17	100,000	127.00	-	132.35	-	160.35	-	-	-	-	-
18	125,000	156.75	-	162.10	-	190.10	-	-	-	-	-
19	150,000	186.50	-	191.85	-	219.85	-	-	-	-	-
20	175,000	216.25	-	221.60	-	249.60	-	-	-	-	-
21	200,000	246.00	-	251.35	-	279.35	-	-	-	-	-
22	250,000	305.50	-	310.85	-	338.85	-	-	-	-	-
23	500,000	603.00	-	608.35	-	636.35	-	-	-	-	-
24	1,000,000	1,198.00	-	1,203.35	-	1,231.35	-	-	-	-	-
25	2,000,000	2,388.00	-	2,393.35	-	2,421.35	-	-	-	-	-
26	3,000,000	3,578.00	-	3,583.35	-	3,611.35	-	-	-	-	-
27	4,000,000	4,768.00	-	4,773.35	-	4,801.35	-	-	-	-	-
28	5,000,000	5,958.00	-	5,963.35	-	5,991.35	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	4	-	9	-	4	-	-	-	-	-
32											
33	AVG. USE (GAL.):	887	-	43,317	-	25,955	-	-	-	-	-
34	MONTHLY BILL:	\$ 9.06	\$ -	\$ 64.90	\$ -	\$ 72.24	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	2,501	-	1,438	-	9,500	-	-	-	-	-
37	MONTHLY BILL:	\$ 10.98	\$ -	\$ 15.06	\$ -	\$ 52.66	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY OTHER METERED CUSTOMERS - RUCO RECOMMENDED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ (0.41)	\$ -	\$ (0.66)	\$ -	\$ (3.48)	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	(0.54)	-	(0.79)	-	(3.61)	-	-	-	-	-
3	2,000	(0.67)	-	(0.92)	-	(3.74)	-	-	-	-	-
4	3,000	(0.80)	-	(1.05)	-	(3.87)	-	-	-	-	-
5	4,000	(0.93)	-	(1.18)	-	(4.00)	-	-	-	-	-
6	5,000	(1.06)	-	(1.31)	-	(4.13)	-	-	-	-	-
7	6,000	(1.19)	-	(1.44)	-	(4.26)	-	-	-	-	-
8	7,000	(1.32)	-	(1.57)	-	(4.39)	-	-	-	-	-
9	8,000	(1.45)	-	(1.70)	-	(4.52)	-	-	-	-	-
10	9,000	(1.58)	-	(1.83)	-	(4.65)	-	-	-	-	-
11	10,000	(1.71)	-	(1.96)	-	(4.78)	-	-	-	-	-
12	15,000	(2.36)	-	(2.61)	-	(5.43)	-	-	-	-	-
13	20,000	(3.01)	-	(3.26)	-	(6.08)	-	-	-	-	-
14	25,000	(3.66)	-	(3.91)	-	(6.73)	-	-	-	-	-
15	50,000	(6.91)	-	(7.16)	-	(9.98)	-	-	-	-	-
16	75,000	(10.16)	-	(10.41)	-	(13.23)	-	-	-	-	-
17	100,000	(13.41)	-	(13.66)	-	(16.48)	-	-	-	-	-
18	125,000	(16.66)	-	(16.91)	-	(19.73)	-	-	-	-	-
19	150,000	(19.91)	-	(20.16)	-	(22.98)	-	-	-	-	-
20	175,000	(23.16)	-	(23.41)	-	(26.23)	-	-	-	-	-
21	200,000	(26.41)	-	(26.66)	-	(29.48)	-	-	-	-	-
22	250,000	(32.91)	-	(33.16)	-	(35.98)	-	-	-	-	-
23	500,000	(65.41)	-	(65.66)	-	(68.48)	-	-	-	-	-
24	1,000,000	(130.41)	-	(130.66)	-	(133.48)	-	-	-	-	-
25	2,000,000	(260.41)	-	(260.66)	-	(263.48)	-	-	-	-	-
26	3,000,000	(390.41)	-	(390.66)	-	(393.48)	-	-	-	-	-
27	4,000,000	(520.41)	-	(520.66)	-	(523.48)	-	-	-	-	-
28	5,000,000	(650.41)	-	(650.66)	-	(653.48)	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	4	-	9	-	4	-	-	-	-	-
32											
33	AVG. USE (GAL.):	887	-	43,317	-	25,955	-	-	-	-	-
34	MONTHLY BILL:	\$ (0.52)	\$ -	\$ (6.29)	\$ -	\$ (6.85)	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	2,501	-	1,438	-	9,500	-	-	-	-	-
37	MONTHLY BILL:	\$ (0.73)	\$ -	\$ (0.85)	\$ -	\$ (4.71)	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY OTHER METERED CUSTOMERS - RUCO RECOMMENDED CHANGES EXPRESSED AS A PERCENTAGE

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	-4.9%	-	-4.7%	-	-7.8%	-	-	-	-	-
2	1,000	-5.5%	-	-5.2%	-	-7.8%	-	-	-	-	-
3	2,000	-6.1%	-	-5.5%	-	-7.9%	-	-	-	-	-
4	3,000	-6.5%	-	-5.8%	-	-7.9%	-	-	-	-	-
5	4,000	-6.8%	-	-6.1%	-	-8.0%	-	-	-	-	-
6	5,000	-7.1%	-	-6.4%	-	-8.0%	-	-	-	-	-
7	6,000	-7.3%	-	-6.6%	-	-8.1%	-	-	-	-	-
8	7,000	-7.5%	-	-6.8%	-	-8.1%	-	-	-	-	-
9	8,000	-7.6%	-	-6.9%	-	-8.2%	-	-	-	-	-
10	9,000	-7.8%	-	-7.1%	-	-8.2%	-	-	-	-	-
11	10,000	-7.9%	-	-7.2%	-	-8.2%	-	-	-	-	-
12	15,000	-8.4%	-	-7.7%	-	-8.4%	-	-	-	-	-
13	20,000	-8.6%	-	-8.1%	-	-8.5%	-	-	-	-	-
14	25,000	-8.8%	-	-8.3%	-	-8.6%	-	-	-	-	-
15	50,000	-9.3%	-	-8.9%	-	-9.0%	-	-	-	-	-
16	75,000	-9.5%	-	-9.2%	-	-9.2%	-	-	-	-	-
17	100,000	-9.6%	-	-9.4%	-	-9.3%	-	-	-	-	-
18	125,000	-9.6%	-	-9.4%	-	-9.4%	-	-	-	-	-
19	150,000	-9.6%	-	-9.5%	-	-9.5%	-	-	-	-	-
20	175,000	-9.7%	-	-9.6%	-	-9.5%	-	-	-	-	-
21	200,000	-9.7%	-	-9.6%	-	-9.5%	-	-	-	-	-
22	250,000	-9.7%	-	-9.6%	-	-9.6%	-	-	-	-	-
23	500,000	-9.8%	-	-9.7%	-	-9.7%	-	-	-	-	-
24	1,000,000	-9.8%	-	-9.8%	-	-9.8%	-	-	-	-	-
25	2,000,000	-9.8%	-	-9.8%	-	-9.8%	-	-	-	-	-
26	3,000,000	-9.8%	-	-9.8%	-	-9.8%	-	-	-	-	-
27	4,000,000	-9.8%	-	-9.8%	-	-9.8%	-	-	-	-	-
28	5,000,000	-9.8%	-	-9.8%	-	-9.8%	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	4	-	9	-	4	-	-	-	-	-
32											
33	AVG. USE (GAL.):	887	-	43,317	-	25,955	-	-	-	-	-
34	MONTHLY BILL:	-5.4%	-	-8.8%	-	-8.7%	-	-	-	-	-
35											
36	MEDIAN USE (GAL.):	2,501	-	1,438	-	9,500	-	-	-	-	-
37	MONTHLY BILL:	-6.2%	-	-5.3%	-	-8.2%	-	-	-	-	-

PARADISE VALLEY FIRE HYDRANT - PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ 5.00	\$ 5.00	\$ 5.00	\$ -	\$ 5.00	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
3	2,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
4	3,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
5	4,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
6	5,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
7	6,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
8	7,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
9	8,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
10	9,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
11	10,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
12	15,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
13	20,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
14	25,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
15	50,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
16	75,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
17	100,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
18	125,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
19	150,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
20	175,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
21	200,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
22	250,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
23	500,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
24	1,000,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
25	2,000,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
26	3,000,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
27	4,000,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
28	5,000,000	5.00	5.00	5.00	-	5.00	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	61	1	2	-	9	-	-	-	-	-
32											
33	AVG. USE (GAL.):	-	-	-	-	-	-	-	-	-	-
34	MONTHLY BILL:	\$ 5.00	\$ 5.00	\$ 5.00	\$ -	\$ 5.00	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	-	-	-	-	-	-	-	-	-	-
37	MONTHLY BILL:	\$ 5.00	\$ 5.00	\$ 5.00	\$ -	\$ 5.00	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY FIRE HYDRANT - RUCO RECOMMENDED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ 4.92	\$ 4.92	\$ 4.92	\$ -	\$ 4.92	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
3	2,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
4	3,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
5	4,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
6	5,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
7	6,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
8	7,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
9	8,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
10	9,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
11	10,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
12	15,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
13	20,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
14	25,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
15	50,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
16	75,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
17	100,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
18	125,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
19	150,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
20	175,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
21	200,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
22	250,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
23	500,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
24	1,000,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
25	2,000,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
26	3,000,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
27	4,000,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
28	5,000,000	4.92	4.92	4.92	-	4.92	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	61	1	2	-	9	-	-	-	-	-
32											
33	AVG. USE (GAL.):										
34	MONTHLY BILL:	\$ 4.92	\$ 4.92	\$ 4.92	\$ -	\$ 4.92	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):										
37	MONTHLY BILL:	\$ 4.92	\$ 4.92	\$ 4.92	\$ -	\$ 4.92	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY FIRE HYDRANT - RUCO RECOMMENDED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ (0.08)	\$ (0.08)	\$ (0.08)	\$ -	\$ (0.08)	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
3	2,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
4	3,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
5	4,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
6	5,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
7	6,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
8	7,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
9	8,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
10	9,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
11	10,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
12	15,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
13	20,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
14	25,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
15	50,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
16	75,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
17	100,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
18	125,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
19	150,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
20	175,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
21	200,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
22	250,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
23	500,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
24	1,000,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
25	2,000,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
26	3,000,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
27	4,000,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
28	5,000,000	(0.08)	(0.08)	(0.08)	-	(0.08)	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	61	1	2	-	9	-	-	-	-	-
32											
33	AVG. USE (GAL.):										
34	MONTHLY BILL:	\$ (0.08)	\$ (0.08)	\$ (0.08)	\$ -	\$ (0.08)	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):										
37	MONTHLY BILL:	\$ (0.08)	\$ (0.08)	\$ (0.08)	\$ -	\$ (0.08)	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY FIRE HYDRANT - RUCO RECOMMENDED CHANGES EXPRESSED AS A PERCENTAGE

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
2	1,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
3	2,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
4	3,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
5	4,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
6	5,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
7	6,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
8	7,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
9	8,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
10	9,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
11	10,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
12	15,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
13	20,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
14	25,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
15	50,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
16	75,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
17	100,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
18	125,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
19	150,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
20	175,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
21	200,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
22	250,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
23	500,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
24	1,000,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
25	2,000,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
26	3,000,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
27	4,000,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
28	5,000,000	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	61	1	2	-	9	-	-	-	-	-
32											
33	AVG. USE (GAL.):	-	-	-	-	-	-	-	-	-	-
34	MONTHLY BILL:	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-
35											
36	MEDIAN USE (GAL.):	-	-	-	-	-	-	-	-	-	-
37	MONTHLY BILL:	-1.6%	-1.6%	-1.6%	-	-1.6%	-	-	-	-	-

PARADISE VALLEY IRRIGATION - PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$	\$	\$	\$	\$	\$ 84.06	\$	\$	\$	\$
2	1,000	-	-	-	-	-	85.38	-	-	-	-
3	2,000	-	-	-	-	-	86.70	-	-	-	-
4	3,000	-	-	-	-	-	88.02	-	-	-	-
5	4,000	-	-	-	-	-	89.34	-	-	-	-
6	5,000	-	-	-	-	-	90.66	-	-	-	-
7	6,000	-	-	-	-	-	91.98	-	-	-	-
8	7,000	-	-	-	-	-	93.30	-	-	-	-
9	8,000	-	-	-	-	-	94.62	-	-	-	-
10	9,000	-	-	-	-	-	95.94	-	-	-	-
11	10,000	-	-	-	-	-	97.26	-	-	-	-
12	15,000	-	-	-	-	-	103.86	-	-	-	-
13	20,000	-	-	-	-	-	110.46	-	-	-	-
14	25,000	-	-	-	-	-	117.06	-	-	-	-
15	50,000	-	-	-	-	-	150.06	-	-	-	-
16	75,000	-	-	-	-	-	183.06	-	-	-	-
17	100,000	-	-	-	-	-	216.06	-	-	-	-
18	125,000	-	-	-	-	-	249.06	-	-	-	-
19	150,000	-	-	-	-	-	282.06	-	-	-	-
20	175,000	-	-	-	-	-	315.06	-	-	-	-
21	200,000	-	-	-	-	-	348.06	-	-	-	-
22	250,000	-	-	-	-	-	414.06	-	-	-	-
23	500,000	-	-	-	-	-	744.06	-	-	-	-
24	1,000,000	-	-	-	-	-	1,404.06	-	-	-	-
25	2,000,000	-	-	-	-	-	2,724.06	-	-	-	-
26	3,000,000	-	-	-	-	-	4,044.06	-	-	-	-
27	4,000,000	-	-	-	-	-	5,364.06	-	-	-	-
28	5,000,000	-	-	-	-	-	6,684.06	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	-	-	-	-	-	1	-	-	-	-
32											
33	AVG. USE (GAL.):	-	-	-	-	-	-	-	-	-	-
34	MONTHLY BILL:	\$	\$	\$	\$	\$	\$ 84.06	\$	\$	\$	\$
35											
36	MEDIAN USE (GAL.):	-	-	-	-	-	-	-	-	-	-
37	MONTHLY BILL:	\$	\$	\$	\$	\$	\$ 84.06	\$	\$	\$	\$

PARADISE VALLEY IRRIGATION - RUCO RECOMMENDED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$	\$	\$	\$	\$	\$ 80.35	\$	\$	\$	\$
2	1,000	-	-	-	-	-	81.67	-	-	-	-
3	2,000	-	-	-	-	-	82.99	-	-	-	-
4	3,000	-	-	-	-	-	84.31	-	-	-	-
5	4,000	-	-	-	-	-	85.63	-	-	-	-
6	5,000	-	-	-	-	-	86.95	-	-	-	-
7	6,000	-	-	-	-	-	88.27	-	-	-	-
8	7,000	-	-	-	-	-	89.59	-	-	-	-
9	8,000	-	-	-	-	-	90.91	-	-	-	-
10	9,000	-	-	-	-	-	92.23	-	-	-	-
11	10,000	-	-	-	-	-	93.55	-	-	-	-
12	15,000	-	-	-	-	-	100.15	-	-	-	-
13	20,000	-	-	-	-	-	106.75	-	-	-	-
14	25,000	-	-	-	-	-	113.35	-	-	-	-
15	50,000	-	-	-	-	-	146.35	-	-	-	-
16	75,000	-	-	-	-	-	179.35	-	-	-	-
17	100,000	-	-	-	-	-	212.35	-	-	-	-
18	125,000	-	-	-	-	-	245.35	-	-	-	-
19	150,000	-	-	-	-	-	278.35	-	-	-	-
20	175,000	-	-	-	-	-	311.35	-	-	-	-
21	200,000	-	-	-	-	-	344.35	-	-	-	-
22	250,000	-	-	-	-	-	410.35	-	-	-	-
23	500,000	-	-	-	-	-	740.35	-	-	-	-
24	1,000,000	-	-	-	-	-	1,400.35	-	-	-	-
25	2,000,000	-	-	-	-	-	2,720.35	-	-	-	-
26	3,000,000	-	-	-	-	-	4,040.35	-	-	-	-
27	4,000,000	-	-	-	-	-	5,360.35	-	-	-	-
28	5,000,000	-	-	-	-	-	6,680.35	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	-	-	-	-	-	1	-	-	-	-
32											
33	AVG. USE (GAL.):	-	-	-	-	-	-	-	-	-	-
34	MONTHLY BILL:	\$	\$	\$	\$	\$	\$ 80.35	\$	\$	\$	\$
35											
36	MEDIAN USE (GAL.):	-	-	-	-	-	-	-	-	-	-
37	MONTHLY BILL:	\$	\$	\$	\$	\$	\$ 80.35	\$	\$	\$	\$

PARADISE VALLEY IRRIGATION - RUCO RECOMMENDED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
2	1,000	-	-	-	-	-	(3.71)	-	-	-	-
3	2,000	-	-	-	-	-	(3.71)	-	-	-	-
4	3,000	-	-	-	-	-	(3.71)	-	-	-	-
5	4,000	-	-	-	-	-	(3.71)	-	-	-	-
6	5,000	-	-	-	-	-	(3.71)	-	-	-	-
7	6,000	-	-	-	-	-	(3.71)	-	-	-	-
8	7,000	-	-	-	-	-	(3.71)	-	-	-	-
9	8,000	-	-	-	-	-	(3.71)	-	-	-	-
10	9,000	-	-	-	-	-	(3.71)	-	-	-	-
11	10,000	-	-	-	-	-	(3.71)	-	-	-	-
12	15,000	-	-	-	-	-	(3.71)	-	-	-	-
13	20,000	-	-	-	-	-	(3.71)	-	-	-	-
14	25,000	-	-	-	-	-	(3.71)	-	-	-	-
15	50,000	-	-	-	-	-	(3.71)	-	-	-	-
16	75,000	-	-	-	-	-	(3.71)	-	-	-	-
17	100,000	-	-	-	-	-	(3.71)	-	-	-	-
18	125,000	-	-	-	-	-	(3.71)	-	-	-	-
19	150,000	-	-	-	-	-	(3.71)	-	-	-	-
20	175,000	-	-	-	-	-	(3.71)	-	-	-	-
21	200,000	-	-	-	-	-	(3.71)	-	-	-	-
22	250,000	-	-	-	-	-	(3.71)	-	-	-	-
23	500,000	-	-	-	-	-	(3.71)	-	-	-	-
24	1,000,000	-	-	-	-	-	(3.71)	-	-	-	-
25	2,000,000	-	-	-	-	-	(3.71)	-	-	-	-
26	3,000,000	-	-	-	-	-	(3.71)	-	-	-	-
27	4,000,000	-	-	-	-	-	(3.71)	-	-	-	-
28	5,000,000	-	-	-	-	-	(3.71)	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	-	-	-	-	-	1	-	-	-	-
32											
33	AVG. USE (GAL.):	-	-	-	-	-	-	-	-	-	-
34	MONTHLY BILL:	\$	\$	\$	\$	\$	\$ (3.71)	\$	\$	\$	\$
35											
36	MEDIAN USE (GAL.):	-	-	-	-	-	-	-	-	-	-
37	MONTHLY BILL:	\$	\$	\$	\$	\$	\$ (3.71)	\$	\$	\$	\$

PARADISE VALLEY IRRIGATION - RUCO RECOMMENDED CHANGES EXPRESSED AS A PERCENTAGE

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	-	-	-	-	-	-4.4%	-	-	-	-
2	1,000	-	-	-	-	-	-4.3%	-	-	-	-
3	2,000	-	-	-	-	-	-4.3%	-	-	-	-
4	3,000	-	-	-	-	-	-4.2%	-	-	-	-
5	4,000	-	-	-	-	-	-4.2%	-	-	-	-
6	5,000	-	-	-	-	-	-4.1%	-	-	-	-
7	6,000	-	-	-	-	-	-4.0%	-	-	-	-
8	7,000	-	-	-	-	-	-4.0%	-	-	-	-
9	8,000	-	-	-	-	-	-3.9%	-	-	-	-
10	9,000	-	-	-	-	-	-3.8%	-	-	-	-
11	10,000	-	-	-	-	-	-3.6%	-	-	-	-
12	15,000	-	-	-	-	-	-3.4%	-	-	-	-
13	20,000	-	-	-	-	-	-3.2%	-	-	-	-
14	25,000	-	-	-	-	-	-2.5%	-	-	-	-
15	50,000	-	-	-	-	-	-2.0%	-	-	-	-
16	75,000	-	-	-	-	-	-1.7%	-	-	-	-
17	100,000	-	-	-	-	-	-1.5%	-	-	-	-
18	125,000	-	-	-	-	-	-1.3%	-	-	-	-
19	150,000	-	-	-	-	-	-1.2%	-	-	-	-
20	175,000	-	-	-	-	-	-1.1%	-	-	-	-
21	200,000	-	-	-	-	-	-0.9%	-	-	-	-
22	250,000	-	-	-	-	-	-0.5%	-	-	-	-
23	500,000	-	-	-	-	-	-0.3%	-	-	-	-
24	1,000,000	-	-	-	-	-	-0.1%	-	-	-	-
25	2,000,000	-	-	-	-	-	-0.1%	-	-	-	-
26	3,000,000	-	-	-	-	-	-0.1%	-	-	-	-
27	4,000,000	-	-	-	-	-	-0.1%	-	-	-	-
28	5,000,000	-	-	-	-	-	-0.1%	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	-	-	-	-	-	1	-	-	-	-
32											
33	AVG. USE (GAL.):	-	-	-	-	-	-	-	-	-	-
34	MONTHLY BILL:	-	-	-	-	-	-4.4%	-	-	-	-
35											
36	MEDIAN USE (GAL.):	-	-	-	-	-	-	-	-	-	-
37	MONTHLY BILL:	-	-	-	-	-	-4.4%	-	-	-	-

PARADISE VALLEY SALES FOR RESALE - PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ 8.41	\$ -	\$ 14.01	\$ -	\$ 44.83	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	9.73	-	15.33	-	46.15	-	-	-	-	-
3	2,000	11.05	-	16.65	-	47.47	-	-	-	-	-
4	3,000	12.37	-	17.97	-	48.79	-	-	-	-	-
5	4,000	13.69	-	19.29	-	50.11	-	-	-	-	-
6	5,000	15.01	-	20.61	-	51.43	-	-	-	-	-
7	6,000	16.33	-	21.93	-	52.75	-	-	-	-	-
8	7,000	17.65	-	23.25	-	54.07	-	-	-	-	-
9	8,000	18.97	-	24.57	-	55.39	-	-	-	-	-
10	9,000	20.29	-	25.89	-	56.71	-	-	-	-	-
11	10,000	21.61	-	27.21	-	58.03	-	-	-	-	-
12	15,000	28.21	-	33.81	-	64.63	-	-	-	-	-
13	20,000	34.81	-	40.41	-	71.23	-	-	-	-	-
14	25,000	41.41	-	47.01	-	77.83	-	-	-	-	-
15	50,000	74.41	-	80.01	-	110.83	-	-	-	-	-
16	75,000	107.41	-	113.01	-	143.83	-	-	-	-	-
17	100,000	140.41	-	146.01	-	176.83	-	-	-	-	-
18	125,000	173.41	-	179.01	-	209.83	-	-	-	-	-
19	150,000	206.41	-	212.01	-	242.83	-	-	-	-	-
20	175,000	239.41	-	245.01	-	275.83	-	-	-	-	-
21	200,000	272.41	-	278.01	-	308.83	-	-	-	-	-
22	250,000	338.41	-	344.01	-	374.83	-	-	-	-	-
23	500,000	668.41	-	674.01	-	704.83	-	-	-	-	-
24	1,000,000	1,328.41	-	1,334.01	-	1,364.83	-	-	-	-	-
25	2,000,000	2,648.41	-	2,654.01	-	2,684.83	-	-	-	-	-
26	3,000,000	3,968.41	-	3,974.01	-	4,004.83	-	-	-	-	-
27	4,000,000	5,288.41	-	5,294.01	-	5,324.83	-	-	-	-	-
28	5,000,000	6,608.41	-	6,614.01	-	6,644.83	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	5	-	10	-	4	-	-	-	-	-
32											
33	AVG. USE (GAL.):	30,000	-	30,000	-	30,000	-	-	-	-	-
34	MONTHLY BILL:	\$ 48.01	\$ -	\$ 53.61	\$ -	\$ 84.43	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	25,500	-	25,500	-	25,500	-	-	-	-	-
37	MONTHLY BILL:	\$ 42.07	\$ -	\$ 47.67	\$ -	\$ 78.49	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY SALES FOR RESALE - RUCO RECOMMENDED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ 8.35	\$ -	\$ 13.70	\$ -	\$ 41.70	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	9.54	-	14.89	-	42.89	-	-	-	-	-
3	2,000	10.73	-	16.08	-	44.08	-	-	-	-	-
4	3,000	11.92	-	17.27	-	45.27	-	-	-	-	-
5	4,000	13.11	-	18.46	-	46.46	-	-	-	-	-
6	5,000	14.30	-	19.65	-	47.65	-	-	-	-	-
7	6,000	15.48	-	20.83	-	48.83	-	-	-	-	-
8	7,000	16.67	-	22.02	-	50.02	-	-	-	-	-
9	8,000	17.86	-	23.21	-	51.21	-	-	-	-	-
10	9,000	19.05	-	24.40	-	52.40	-	-	-	-	-
11	10,000	20.24	-	25.59	-	53.59	-	-	-	-	-
12	15,000	26.19	-	31.54	-	59.54	-	-	-	-	-
13	20,000	32.13	-	37.48	-	65.48	-	-	-	-	-
14	25,000	38.08	-	43.43	-	71.43	-	-	-	-	-
15	50,000	67.81	-	73.16	-	101.16	-	-	-	-	-
16	75,000	97.54	-	102.89	-	130.89	-	-	-	-	-
17	100,000	127.26	-	132.61	-	160.61	-	-	-	-	-
18	125,000	156.99	-	162.34	-	190.34	-	-	-	-	-
19	150,000	186.72	-	192.07	-	220.07	-	-	-	-	-
20	175,000	216.45	-	221.80	-	249.80	-	-	-	-	-
21	200,000	246.18	-	251.53	-	279.53	-	-	-	-	-
22	250,000	305.63	-	310.98	-	338.98	-	-	-	-	-
23	500,000	602.92	-	608.27	-	636.27	-	-	-	-	-
24	1,000,000	1,197.48	-	1,202.83	-	1,230.83	-	-	-	-	-
25	2,000,000	2,386.62	-	2,391.97	-	2,419.97	-	-	-	-	-
26	3,000,000	3,575.75	-	3,581.10	-	3,609.10	-	-	-	-	-
27	4,000,000	4,764.89	-	4,770.24	-	4,798.24	-	-	-	-	-
28	5,000,000	5,954.02	-	5,959.37	-	5,987.37	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	5	-	10	-	4	-	-	-	-	-
32											
33	AVG. USE (GAL.):	30,000	-	30,000	-	30,000	-	-	-	-	-
34	MONTHLY BILL:	\$ 44.02	\$ -	\$ 49.37	\$ -	\$ 77.37	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	25,500	-	25,500	-	25,500	-	-	-	-	-
37	MONTHLY BILL:	\$ 38.67	\$ -	\$ 44.02	\$ -	\$ 72.02	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY SALES FOR RESALE - RUOCO RECOMMENDED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	\$ (0.06)	\$ -	\$ (0.31)	\$ -	\$ (3.13)	\$ -	\$ -	\$ -	\$ -	\$ -
2	1,000	(0.19)	-	(0.44)	-	(3.26)	-	-	-	-	-
3	2,000	(0.32)	-	(0.57)	-	(3.39)	-	-	-	-	-
4	3,000	(0.45)	-	(0.70)	-	(3.52)	-	-	-	-	-
5	4,000	(0.58)	-	(0.83)	-	(3.65)	-	-	-	-	-
6	5,000	(0.71)	-	(0.96)	-	(3.78)	-	-	-	-	-
7	6,000	(0.85)	-	(1.10)	-	(3.92)	-	-	-	-	-
8	7,000	(0.98)	-	(1.23)	-	(4.05)	-	-	-	-	-
9	8,000	(1.11)	-	(1.36)	-	(4.18)	-	-	-	-	-
10	9,000	(1.24)	-	(1.49)	-	(4.31)	-	-	-	-	-
11	10,000	(1.37)	-	(1.62)	-	(4.44)	-	-	-	-	-
12	15,000	(2.02)	-	(2.27)	-	(5.09)	-	-	-	-	-
13	20,000	(2.68)	-	(2.93)	-	(5.75)	-	-	-	-	-
14	25,000	(3.33)	-	(3.58)	-	(6.40)	-	-	-	-	-
15	50,000	(6.60)	-	(6.85)	-	(9.67)	-	-	-	-	-
16	75,000	(9.87)	-	(10.12)	-	(12.94)	-	-	-	-	-
17	100,000	(13.15)	-	(13.40)	-	(16.22)	-	-	-	-	-
18	125,000	(16.42)	-	(16.67)	-	(19.49)	-	-	-	-	-
19	150,000	(19.69)	-	(19.94)	-	(22.76)	-	-	-	-	-
20	175,000	(22.96)	-	(23.21)	-	(26.03)	-	-	-	-	-
21	200,000	(26.23)	-	(26.48)	-	(29.30)	-	-	-	-	-
22	250,000	(32.78)	-	(33.03)	-	(35.85)	-	-	-	-	-
23	500,000	(65.49)	-	(65.74)	-	(68.56)	-	-	-	-	-
24	1,000,000	(130.93)	-	(131.18)	-	(134.00)	-	-	-	-	-
25	2,000,000	(261.79)	-	(262.04)	-	(264.86)	-	-	-	-	-
26	3,000,000	(392.66)	-	(392.91)	-	(395.73)	-	-	-	-	-
27	4,000,000	(523.52)	-	(523.77)	-	(526.59)	-	-	-	-	-
28	5,000,000	(654.39)	-	(654.64)	-	(657.46)	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	5	-	10	-	4	-	-	-	-	-
32											
33	AVG. USE (GAL.):	30,000	-	30,000	-	30,000	-	-	-	-	-
34	MONTHLY BILL:	\$ (3.99)	\$ -	\$ (4.24)	\$ -	\$ (7.06)	\$ -	\$ -	\$ -	\$ -	\$ -
35											
36	MEDIAN USE (GAL.):	25,500	-	25,500	-	25,500	-	-	-	-	-
37	MONTHLY BILL:	\$ (3.40)	\$ -	\$ (3.65)	\$ -	\$ (6.47)	\$ -	\$ -	\$ -	\$ -	\$ -

PARADISE VALLEY SALES FOR RESALE - RUCO RECOMMENDED CHANGES EXPRESSED AS A PERCENTAGE

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 3/4 - INCH	(C) 1 - INCH	(D) 1.5 - INCH	(E) 2 - INCH	(F) 3 - INCH	(G) 4 - INCH	(H) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	-0.7%	-	-2.2%	-	-7.0%	-	-	-	-	-
2	1,000	-2.0%	-	-2.9%	-	-7.1%	-	-	-	-	-
3	2,000	-2.9%	-	-3.4%	-	-7.1%	-	-	-	-	-
4	3,000	-3.6%	-	-3.9%	-	-7.2%	-	-	-	-	-
5	4,000	-4.2%	-	-4.3%	-	-7.3%	-	-	-	-	-
6	5,000	-4.7%	-	-4.7%	-	-7.3%	-	-	-	-	-
7	6,000	-5.2%	-	-5.0%	-	-7.4%	-	-	-	-	-
8	7,000	-5.6%	-	-5.3%	-	-7.5%	-	-	-	-	-
9	8,000	-5.9%	-	-5.5%	-	-7.5%	-	-	-	-	-
10	9,000	-6.1%	-	-5.8%	-	-7.6%	-	-	-	-	-
11	10,000	-6.3%	-	-6.0%	-	-7.7%	-	-	-	-	-
12	15,000	-7.2%	-	-6.7%	-	-7.9%	-	-	-	-	-
13	20,000	-7.7%	-	-7.3%	-	-8.1%	-	-	-	-	-
14	25,000	-8.0%	-	-7.6%	-	-8.2%	-	-	-	-	-
15	50,000	-8.9%	-	-8.6%	-	-8.7%	-	-	-	-	-
16	75,000	-9.2%	-	-9.0%	-	-9.0%	-	-	-	-	-
17	100,000	-9.4%	-	-9.2%	-	-9.2%	-	-	-	-	-
18	125,000	-9.5%	-	-9.3%	-	-9.3%	-	-	-	-	-
19	150,000	-9.5%	-	-9.4%	-	-9.4%	-	-	-	-	-
20	175,000	-9.6%	-	-9.5%	-	-9.4%	-	-	-	-	-
21	200,000	-9.6%	-	-9.5%	-	-9.5%	-	-	-	-	-
22	250,000	-9.7%	-	-9.6%	-	-9.6%	-	-	-	-	-
23	500,000	-9.8%	-	-9.8%	-	-9.7%	-	-	-	-	-
24	1,000,000	-9.9%	-	-9.8%	-	-9.8%	-	-	-	-	-
25	2,000,000	-9.9%	-	-9.9%	-	-9.9%	-	-	-	-	-
26	3,000,000	-9.9%	-	-9.9%	-	-9.9%	-	-	-	-	-
27	4,000,000	-9.9%	-	-9.9%	-	-9.9%	-	-	-	-	-
28	5,000,000	-9.9%	-	-9.9%	-	-9.9%	-	-	-	-	-
29											
30											
31	AVG. NO. OF CUST:	5	-	10	-	4	-	-	-	-	-
32											
33	AVG. USE (GAL.):	30,000	-	30,000	-	30,000	-	-	-	-	-
34	MONTHLY BILL:	-8.3%	-	-7.9%	-	-8.4%	-	-	-	-	-
35											
36	MEDIAN USE (GAL.):	25,500	-	25,500	-	25,500	-	-	-	-	-
37	MONTHLY BILL:	-8.1%	-	-7.7%	-	-8.2%	-	-	-	-	-

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-9, PAGE 1 OF 9

PARADISE VALLEY RESIDENTIAL CUSTOMERS

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$ 222,584	\$ 646,186	\$ 868,770
2	3/4 - INCH	1,670	778	2,448
3	1 - INCH	303,552	1,833,903	2,137,455
4	1 1/2 - INCH	3,004	36,769	39,773
5	2 - INCH	58,469	318,353	376,822
6	3 - INCH	-	-	-
7	4 - INCH	-	-	-
8	6 - INCH	-	-	-
9	8 - INCH	-	-	-
10	10 - INCH	-	-	-
11	TOTALS	<u>\$ 589,279</u>	<u>\$ 2,835,989</u>	<u>\$ 3,425,268</u>
12	PERCENTAGE OF TOTAL REVENUE	17.00%	83.00%	100.00%

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-9, PAGE 2 OF 9

MUMMY MOUNTAIN RESIDENTIAL CUSTOMERS

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$ 192	\$ 1,507	\$ 1,699
2	3/4 - INCH	-	-	-
3	1 - INCH	5,140	58,982	64,122
4	1 1/2 - INCH	6,061	30,017	36,078
5	2 - INCH	4,466	18,981	23,446
6	3 - INCH	-	-	-
7	4 - INCH	-	-	-
8	6 - INCH	-	-	-
9	8 - INCH	-	-	-
10	10 - INCH	-	-	-
11	TOTALS	\$ 15,858	\$ 109,487	\$ 125,345
12	PERCENTAGE OF TOTAL REVENUE	13.00%	87.00%	100.00%

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-9, PAGE 3 OF 9

PARADISE VALLEY COMMERCIAL CUSTOMERS

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$3,576	\$2,841	\$ 6,417
2	3/4 - INCH	-	-	-
3	1 - INCH	6,542	38,195	44,736
4	1 1/2 - INCH	6,904	28,519	35,423
5	2 - INCH	57,601	505,442	563,043
6	3 - INCH	10,752	74,344	85,096
7	4 - INCH	1,540	-	1,540
8	6 - INCH	12,317	96,194	108,510
9	8 - INCH	-	-	-
10	10 - INCH	-	-	-
11	TOTALS	\$ 99,230	\$ 745,534	\$ 844,765
12	PERCENTAGE OF TOTAL REVENUE	12.00%	88.00%	100.00%

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-9, PAGE 4 OF 9

PARADISE VALLEY TURF CUSTOMERS

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$ -	\$ -	\$ -
2	3/4 - INCH	-	-	-
3	1 - INCH	-	-	-
4	1 1/2 - INCH	-	-	-
5	2 - INCH	-	-	-
6	3 - INCH	777	55,160	55,937
7	3 - INCH	855	7,333	8,188
8	4 - INCH	-	-	-
9	6 - INCH	-	-	-
10	8 - INCH	-	-	-
11	10 - INCH	-	-	-
12	TOTALS	\$ 1,632	\$ 62,493	\$ 64,125
13	PERCENTAGE OF TOTAL REVENUE	3.00%	97.00%	100.00%

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-9, PAGE 5 OF 9

PARADISE VALLEY COUNTRY CLUB CONTRACT RATE

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$ -	-	-
2	3/4 - INCH	-	-	-
3	1 - INCH	-	-	-
4	1 1/2 - INCH	-	-	-
5	2 - INCH	-	-	-
6	3 - INCH	-	-	-
7	4 - INCH	-	-	-
8	6 - INCH	\$140,781	\$0	140,781
9	8 - INCH	-	-	-
10	10 - INCH	-	-	-
11	TOTALS	<u>\$ 140,781</u>	<u>\$ -</u>	<u>\$ 140,781</u>
12	PERCENTAGE OF TOTAL REVENUE	100.00%	0.00%	100.00%

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-01303A-05-0405
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PARADISE VALLEY OTHER METERED CUSTOMERS

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE	
1	5/8 X 3/4 - INCH	\$424	\$56	\$480	
2	3/4 - INCH	-	-	-	
3	1 - INCH	1,455	5,619	7,074	
4	1 1/2 - INCH	-	-	-	
5	2 - INCH	1,819	1,359	3,178	
6	3 - INCH	-	-	-	
7	4 - INCH	-	-	-	
8	6 - INCH	-	-	-	
9	8 - INCH	-	-	-	
10	10 - INCH	-	0	0	
11	TOTALS	\$ 3,699	\$ 7,033	\$ 10,732	
12	PERCENTAGE OF TOTAL REVENUE	34.00%	66.00%	100.00%	

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

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PARADISE VALLEY FIRE HYDRANT

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$ 3,603	-	\$ 3,603
2	3/4 - INCH	54	-	54
3	1 - INCH	118	-	118
4	1 1/2 - INCH	-	-	-
5	2 - INCH	532	-	532
6	3 - INCH	-	-	-
7	4 - INCH	-	-	-
8	6 - INCH	-	-	-
9	8 - INCH	-	-	-
10	10 - INCH	-	-	-
11	TOTALS	\$ 4,307	\$ -	\$ 4,307
12	PERCENTAGE OF TOTAL REVENUE	100.00%	0.00%	100.00%

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-9, PAGE 8 OF 9

PARADISE VALLEY IRRIGATION

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$ -	-	-
2	3/4 - INCH	-	-	-
3	1 - INCH	-	-	-
4	1 1/2 - INCH	-	-	-
5	2 - INCH	-	-	-
6	3 - INCH	804	-	804
7	4 - INCH	-	-	-
8	6 - INCH	-	-	-
9	8 - INCH	-	-	-
10	10 - INCH	-	-	-
11	TOTALS	\$ 804	\$ -	\$ 804
12	PERCENTAGE OF TOTAL REVENUE	100.00%	0.00%	100.00%

ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-01303A-05-0405
 SCHEDULE TJC-9, PAGE 9 OF 9

PARADISE VALLEY SALES FOR RESALE

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE
1	5/8 X 3/4 - INCH	\$ 484	\$ 2,069	\$ 2,553
2	3/4 - INCH	-	-	-
3	1 - INCH	1,644	4,281	5,925
4	1 1/2 - INCH	-	-	-
5	2 - INCH	2,002	1,712	3,714
6	3 - INCH	-	-	-
7	4 - INCH	-	-	-
8	6 - INCH	-	-	-
9	8 - INCH	-	-	-
10	10 - INCH	-	-	-
11	TOTALS	\$ 4,130	\$ 8,062	\$ 12,192
12	PERCENTAGE OF TOTAL REVENUE	34.00%	66.00%	100.00%

ARIZONA AMERICAN WATER COMPANY, INC.
(PARADISE VALLEY WATER DISTRICT)

DOCKET NO. W-01303A-05-0405

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

JANUARY 17, 2006

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INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and your qualifications in the field of utilities regulation.

A. Appendix I, which is attached to this testimony, describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present recommendations that are based on my analysis of Arizona-American Water Company's ("Arizona-American" or "Company") application for a permanent rate increase ("Application") for the Company's Paradise Valley Water District ("PV Water").

Q. Briefly describe Arizona-American.

A. In addition to PV Water, Arizona-American operates ten other water and wastewater systems in Arizona. The Company is a subsidiary of American Water, which is based in Voorhees, New Jersey. According to

1 information contained on American Water's website¹ American Water
2 provides water and wastewater service to customers in nineteen other
3 states (including California, Hawaii and New Mexico in the western U.S.)
4 and three Canadian provinces. Both American Water and its sister
5 company Thames Water (which serves communities in the United
6 Kingdom), are presently owned by RWE AG, a large multinational utility
7 holding company headquartered in Essen, Germany².

8
9 Q. Please explain your role in RUCO's analysis of Arizona-American's
10 Application.

11 A. I reviewed Arizona-American's Application and performed a cost of capital
12 analysis to determine a fair rate of return on the Company's invested
13 capital. In addition to my recommended capital structure, my direct
14 testimony will present my recommended costs of common equity and my
15 recommended cost of debt (the Company has no preferred stock). The
16 recommendations contained in this testimony are based on information
17 obtained from Company responses to data requests, the Company's

¹ <http://www.amwater.com>

² In a press release dated November 4, 2005, RWE AG announced its intentions to divest both of its water business segments, which include Thames Water in the UK and American Water in North America. RWE stated that it had made the decision because the Company believes it can make better use of its core strengths by concentrating on the converging European electricity and gas markets. RWE also stated that limited synergies between its North American and UK water businesses and its European energy business were a major factor in the decision. RWE AG further stated that its aim is to temporarily increase its dividend payout ratio on completion of each transaction and to reduce debt.

1 Application and from market-based research that I conducted during my
2 analysis.

3
4 Q. Is this your first case involving Arizona-American?

5 A. No. In addition to providing testimony, as a witness for RUCO, on the cost
6 of capital issues associated with the Company's last rate case proceeding
7 before the ACC³, I also recommended, as a Senior Rate Analyst on the
8 ACC Staff, that the Commission reauthorize a revolving line of credit for
9 PV Water⁴.

10
11 Q. Were you also responsible for conducting an analysis on the Company's
12 proposed revenue level, rate base, rate design, and surcharges which are
13 designed to encourage water conservation, to recover the costs
14 associated with public safety improvements (i.e. fire flow capital
15 improvement), and to comply with the U.S. Environmental Protection
16 Agency's ("EPA") revised arsenic standard which goes into effect this
17 year?

18 A. No. RUCO witnesses Rodney L. Moore, Timothy J. Coley, and Marylee
19 Diaz Cortez, CPA, handled those aspects of the Company's Application.
20 The operating revenue and expense issues associated with this case will
21 be covered in the direct testimony of Mr. Moore. Mr. Moore will also

³ Docket No. W-01335A-02-0867 et al.

⁴ Docket No. W-01335A-00-0327

1 provide testimony on the Company's request for an arsenic cost recovery
2 mechanism ("ACRM"). Mr. Coley will provide direct testimony on RUCO's
3 recommendations regarding rate base and rate design. Ms. Diaz Cortez
4 will address Arizona-American's requests for surcharges to encourage
5 water conservation and to provide cost recovery for the Company-
6 proposed fire flow capital improvement plan ("FFIP").
7

8 Q. What areas will you address in your testimony?

9 A. I will address the cost of capital issues associated with the case.
10

11 Q. Please identify the exhibits that you are sponsoring.

12 A. I am sponsoring Schedules WAR-1 through WAR-9.
13

14 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

15 Q. Briefly summarize how your cost of capital testimony is organized.

16 A. My cost of capital testimony is organized into three sections. First, I will
17 present the findings of my cost of equity capital analysis, which utilized
18 both the discounted cash flow ("DCF") method, and the capital asset
19 pricing model ("CAPM"). These are the two methods that RUCO and ACC
20 Staff have consistently used for calculating the cost of equity capital in rate
21 case proceedings in the past, and are the methodologies that the ACC
22 has given the most weight to in setting allowed rates of returns for utilities
23 that operate in the Arizona jurisdiction. In this first section I will also

1 provide a brief overview of the current economic climate that Arizona-
2 American is operating in. Second, I will compare my recommended
3 capital structure with the Company-proposed capital structure. Third, I will
4 comment on Arizona-American's cost of capital testimony. Schedules
5 WAR-1 through WAR-9 will provide support for my cost of capital analysis.
6

7 Q. Please summarize the recommendations and adjustments that you will
8 address in your testimony.

9 A. Based on the results of my analysis of Arizona-American, I am making the
10 following recommendations:
11

12 Cost of Equity Capital – I am recommending a 10.00 percent cost of equity
13 capital. This 10.00 percent figure is based on the results that I obtained in
14 my cost of equity analysis, which employed both the DCF and CAPM
15 methodologies.
16

17 Cost of Debt – I am recommending that the Commission adopt Arizona-
18 American's proposed 5.42 percent cost of debt. This is based on my
19 review of the costs associated with Arizona-American's various long-term
20 notes and payment in lieu of revenue ("PILR") financing arrangements.
21

1 Capital Structure – I am recommending that the Company-proposed
2 capital structure, which is comprised of approximately 37 percent common
3 equity and 63 percent debt, be adopted by the Commission.

4
5 Cost of Capital – Based on the results of my recommended capital
6 structure, cost of common equity, and debt analyses, I am recommending
7 a 7.10 percent cost of capital for Arizona-American. This figure represents
8 the weighted cost of both the Company's common equity and debt.

9
10 Q. Why do you believe that your recommended 7.10 percent cost of capital is
11 an appropriate rate of return for Arizona-American to earn on its invested
12 capital?

13 A. The 7.10 percent cost of capital figure that I have recommended meets
14 the criteria established in the landmark Supreme Court cases of Bluefield
15 Water Works & Improvement Co. v. Public Service Commission of West
16 Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope
17 Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two
18 cases affirmed that a public utility that is efficiently and economically
19 managed is entitled to a return on investment that instills confidence in its
20 financial soundness, allows the utility to attract capital, and also allows the
21 utility to perform its duty to provide service to ratepayers. The rate of
22 return adopted for the utility should also be comparable to a return that
23 investors would expect to receive from investments with similar risk.

1 The Hope decision allows for the rate of return to cover both the operating
2 expenses and the "capital costs of the business" which includes interest
3 on debt and dividend payment to shareholders. This is predicated on the
4 belief that, in the long run, a company that cannot meet its debt obligations
5 and provide its shareholders with an adequate rate of return will not
6 continue to supply adequate public utility service to ratepayers.

7
8 Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient
9 to cover all operating and capital costs is guaranteed?

10 A. No. Neither case *guarantees* a rate of return on utility investment. What
11 the Bluefield and Hope decisions *do allow*, is for a utility to be provided
12 with the *opportunity* to earn a reasonable rate of return on its investment.
13 That is to say that a utility, such as Arizona-American, is provided with the
14 opportunity to earn an appropriate rate of return if the Company's
15 management exercises good judgment and manages its assets and
16 resources in a manner that is both prudent and economically efficient.

17
18 **COST OF EQUITY CAPITAL**

19 Q. What is your recommended cost of equity capital for Arizona-American?

20 A. Based on the results of my DCF and CAPM analyses, which ranged from
21 8.63 percent to 10.55 percent for a sample of publicly traded water and
22 gas providers, I am recommending a 10.00 percent cost of equity capital
23 for Arizona-American. My recommended 10.00 percent figure is the

1 adjusted result of a DCF analysis, which utilized a sample of publicly
2 traded water providers.

3
4 **Discounted Cash Flow (DCF) Method**

5 Q. Please explain the DCF method that you used to estimate Arizona-
6 American's cost of equity capital.

7 A. The DCF method employs a stock valuation model that is often referred to
8 as either the constant growth valuation model or the Gordon⁵ model.
9 Simply stated, the DCF model is based on the premise that the current
10 price of a given share of common stock is determined by the present value
11 of all of the future cash flows that will be generated by that share of
12 common stock. The rate that is used to discount these cash flows back to
13 their present value is often referred to as the investor's cost of capital (i.e.
14 the cost at which an investor is willing to forego other investments in favor
15 of the one that he or she has chosen).

16 Another way of looking at the investor's cost of capital is to consider it from
17 the standpoint of a company that is offering its shares of stock to the
18 investing public. In order to raise capital, through the sale of common
19 stock, a company must provide a required rate of return on its stock that
20 will attract investors to commit funds to that particular investment. In this
21 respect, the terms "cost of capital" and "investor's required return" are one
22 in the same. For common stock, this required return is a function of the

⁵ Named after Dr. Myron J. Gordon, the professor of finance who developed the model.

1 dividend that is paid on the stock. The investor's required rate of return
2 can be expressed as the percentage of the dividend that is paid on the
3 stock (dividend yield) plus an expected rate of future dividend growth.
4 This is illustrated in mathematical terms by the following formula:

$$k = (D_1 \div P_0) + g$$

5
6
7 where: k = the required return (cost of equity, equity
8 capitalization rate),

9 $D_1 \div P_0$ = the dividend yield of a given share of stock
10 calculated by dividing the expected dividend by
11 the current market price of the given share of
12 stock, and

13 g = the expected rate of future dividend growth.
14

15 This formula is the basis for the standard growth valuation model that I
16 used to determine Arizona-American's cost of equity capital. It is similar to
17 the model that was used by the Company.
18

19 Q. In determining the rate of future dividend growth for Arizona-American,
20 what assumptions did you make?

21 A. There are two primary assumptions regarding dividend growth that must
22 be made when using the DCF method. First, dividends will grow by a
23 constant rate into perpetuity, and second, the dividend payout ratio will

1 remain at a constant rate. Both of these assumptions are predicated on
2 the traditional DCF model's basic underlying assumption that a company's
3 earnings, dividends, book value and share growth all increase at the same
4 constant rate of growth into infinity. Given these assumptions, if the
5 dividend payout ratio remains constant, so does the earnings retention
6 ratio (the percentage of earnings that are retained by the company as
7 opposed to being paid out in dividends). This being the case, a
8 company's dividend growth can be measured by multiplying its retention
9 ratio (1 - dividend payout ratio) by its book return on equity. This can be
10 stated as $g = b \times r$.

11
12 Q. Would you please provide an example that will illustrate the relationship
13 that earnings, the dividend payout ratio and book value have with dividend
14 growth?

15 A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens
16 Utilities Company 1993 rate case by using a hypothetical utility.⁶

17 Table I

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
18 Book Value	\$10.00	\$10.40	\$10.82	\$11.25	\$11.70	4.00%
19 Equity Return	10%	10%	10%	10%	10%	N/A
20 Earnings/Sh.	\$1.00	\$1.04	\$1.082	\$1.125	\$1.170	4.00%
21 Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
22 Dividend/Sh	\$0.60	\$0.624	\$0.649	\$0.675	\$0.702	4.00%

23
⁶ Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

1 Table I of Mr. Hill's illustration presents data for a five-year period on his
2 hypothetical utility. In Year 1, the utility had a common equity or book
3 value of \$10.00 per share, an investor-expected equity return of ten
4 percent, and a dividend payout ratio of sixty percent. This results in
5 earnings per share of \$1.00 (\$10.00 book value x 10 percent equity return)
6 and a dividend of \$0.60 (\$1.00 earnings/sh. x 0.60 payout ratio) during
7 Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's
8 earnings are retained as opposed to being paid out to investors, book
9 value increases to \$10.40 in Year 2 of Mr. Hill's illustration. Table I
10 presents the results of this continuing scenario over the remaining five-
11 year period.

12 The results displayed in Table I demonstrate that under "steady-state" (i.e.
13 constant) conditions, book value, earnings and dividends all grow at the
14 same constant rate. The table further illustrates that the dividend growth
15 rate, as discussed earlier, is a function of (1) the internally generated
16 funds or earnings that are retained by a company to become new equity,
17 and (2) the return that an investor earns on that new equity. The DCF
18 dividend growth rate, expressed as $g = b \times r$, is also referred to as the
19 internal or sustainable growth rate.

20
21 ...
22
23

Q. If earnings and dividends both grow at the same rate as book value, shouldn't that rate be the sole factor in determining the DCF growth rate?

A. No. Possible changes in the expected rate of return on either common equity or the dividend payout ratio make earnings and dividend growth by themselves unreliable. This can be seen in the continuation of Mr. Hill's illustration on a hypothetical utility.

Table II

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
Book Value	\$10.00	\$10.40	\$10.82	\$11.47	\$12.158	5.00%
Equity Return	10%	10%	15%	15%	15%	10.67%
Earnings/Sh	\$1.00	\$1.04	\$1.623	\$1.720	\$1.824	16.20%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	\$0.60	\$0.624	\$0.974	\$1.032	\$1.094	16.20%

In the example displayed in Table II, a sustainable growth rate of four percent⁷ exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six percent.⁸ If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rates for earnings and dividends, displayed in the last column, are 16.20 percent. If this rate were to be

⁷ $[(\text{Year 2 Earnings/Sh} - \text{Year 1 Earnings/Sh}) \div \text{Year 1 Earnings/Sh}] = [(\$1.04 - \$1.00) \div \$1.00] = [\$0.04 \div \$1.00] = \underline{4.00\%}$

⁸ $[(1 - \text{Payout Ratio}) \times \text{Rate of Return}] = [(1 - 0.60) \times 15.00\%] = 0.40 \times 15.00\% = \underline{6.00\%}$

1 used in the DCF model, the utility's return on common equity would be
2 expected to increase by fifty percent every five years, $[(15 \text{ percent} \div 10$
3 percent) – 1]. This is clearly an unrealistic expectation.

4 Although it is not illustrated in Mr. Hill's hypothetical example, a change in
5 only the dividend payout ratio will eventually result in a utility paying out
6 more in dividends than it earns. While it is not uncommon for a utility in
7 the real world to have a dividend payout ratio that exceeds one hundred
8 percent on occasion, it would be unrealistic to expect the practice to
9 continue over a sustained long-term period of time.

10
11 Q. Other than the retention of internally generated funds, as illustrated in Mr.
12 Hill's hypothetical example, are there any other sources of new equity
13 capital that can influence an investor's growth expectations for a given
14 company?

15 A. Yes, a company can raise new equity capital externally. The best
16 example of external funding would be the sale of new shares of common
17 stock. This would create additional equity for the issuer and is often the
18 case with utilities that are either in the process of acquiring smaller
19 systems or providing service to rapidly growing areas.

20
21
22 ...
23

1 Q. How does external equity financing influence the growth expectations held
2 by investors?

3 A. Rational investors will put their available funds into investments that will
4 either meet or exceed their given cost of capital (i.e. the return earned on
5 their investment). In the case of a utility, the book value of a company's
6 stock usually mirrors the equity portion of its rate base (the utility's earning
7 base). Because regulators allow utilities the opportunity to earn a
8 reasonable rate of return on rate base, an investor would take into
9 consideration the effect that a change in book value would have on the
10 rate of return that he or she would expect the utility to earn. If an investor
11 believes that a utility's book value (i.e. the utility's earning base) will
12 increase, then he or she would expect the return on the utility's common
13 stock to increase. If this positive trend in book value continues over an
14 extended period of time, an investor would have a reasonable expectation
15 for sustained long-term growth.

16
17 Q. Please provide an example of how external financing affects a utility's
18 book value of equity.

19 A. As I explained earlier, one way that a utility can increase its equity is by
20 selling new shares of common stock on the open market. If these new
21 shares are purchased at prices that are higher than those shares sold
22 previously, the utility's book value per share will increase in value. This
23 would increase both the earnings base of the utility and the earnings

v = funds raised from the sale of stock as a fraction
of existing equity.

$$3 \quad \text{and} \quad v = 1 - [(BV) \div (MP)]$$

4 where: BV = book value per share of common stock, and

5 MP = the market price per share of common stock.

6

7 Q. Did you include the effect of external equity financing on long-term growth
8 rate expectations in your analysis of expected dividend growth for the DCF
9 model?

10 A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of
11 Schedule WAR-4, where it is added to the internal growth rate estimate
12 (br) to arrive at a final sustainable growth rate estimate.

13

14 Q. Please explain why your calculation of external growth on page 2 of
15 Schedule WAR-4, is the current market-to-book ratio averaged with 1.0 in
16 the equation $[(M \div B) + 1] \div 2$.

A. The market price of a utility's common stock will tend to move toward book value, or a market-to-book ratio of 1.0, if regulators allow a rate of return that is equal to the cost of capital (one of the desired effects of regulation). As a result of this situation, I used $[(M \div B) + 1] \div 2$ as opposed to the current market-to-book ratio by itself to represent investor's expectations that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

23

1 Q. How did you develop your dividend growth rate estimate?

2 A. I analyzed data on two separate proxy groups. A water company proxy
3 group comprised of four publicly traded water companies and a natural
4 gas proxy group consisting of eight natural gas local distribution
5 companies ("LDC") which have similar operating characteristics to water
6 providers.

7
8 Q. Why did you use a proxy group methodology as opposed to a direct
9 analysis of Arizona-American?

10 A. One of the problems in performing this type of analysis is that the utility
11 applying for a rate increase is not always a publicly traded company, as is
12 the case with Arizona-American itself. Although shares of Arizona-
13 American's holding company, RWE AG of Germany, are traded in the U.S.
14 in the form of American depository receipts or ADR's (ticker symbol
15 RWEQY in the case of RWE AG), there is no financial data available on
16 dividends paid on *publicly held* shares of American Water, Arizona-
17 American or PV Water. Consequently it was necessary to create a proxy
18 by analyzing publicly traded water companies with similar risk
19 characteristics.

20
21 Q. Are there any other advantages to the use of a proxy?

22 A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope
23 decision that a utility is entitled to earn a rate of return that is

1 commensurate with the returns on investments of other firms with
2 comparable risk. The proxy technique that I have used derives that rate of
3 return. One other advantage to using a sample of companies is that it
4 reduces the possible impact that any undetected biases, anomalies, or
5 measurement errors may have on the DCF growth estimate.

6
7 Q. What criteria did you use in selecting the companies that make up your
8 water company proxy for Arizona-American?

9 A. Three of the water companies used in the proxy are publicly traded on the
10 New York Stock Exchange ("NYSE"), and one of them, Southwest Water
11 Company is traded over the counter through the National Association of
12 Securities Dealers Automated Quotation System ("NASDAQ"). All four
13 water companies are followed by The Value Line Investment Survey
14 ("Value Line") and are the same companies that comprise Value Line's
15 large capitalization Water Utility Industry segment of the U.S. economy
16 (Attachment A contains Value Line's October 28, 2005 update of the water
17 utility industry and evaluations of the four water companies used in my
18 proxy).

19
20 Q. What companies comprise your water company proxy group?

21 A. My water company proxy group includes American States Water
22 Company (stock ticker symbol "AWR"), Aqua America, Inc. ("WTR"),
23 formerly known as Philadelphia Suburban Corporation, and California

1 Water Service Group ("CWT"). The fourth water company, Southwest
2 Water Company ("SWWC"), is a new addition to Value Line's water
3 industry segment and debuted in the October 28, 2005 edition of Value
4 Line's Ratings and Reports publication. Each of these water companies
5 face the same types of risk that Arizona-American's PV Water system
6 faces. For the sake of brevity, I will refer to each of these companies by
7 their appropriate stock ticker symbols henceforth.

8
9 Q. Briefly describe the areas served by the companies in your water
10 company sample proxy.

11 A. In addition to providing water service to residents of Fountain Hills,
12 Arizona, through its wholly owned subsidiary Chaparral City Water
13 Company, AWR serves communities located in Los Angeles, Orange and
14 San Bernardino counties in California. CWT provides service to
15 customers in seventy-five communities in California, New Mexico and
16 Washington. CWT's principal service areas are located in the San
17 Francisco Bay area, the Sacramento, Salinas and San Joaquin Valleys
18 and parts of Los Angeles. SWWC owns and manages regulated systems
19 in California, New Mexico, Oklahoma and Texas. WTR, is a holding
20 company for a large number of water and wastewater utilities operating in
21 nine different states including Pennsylvania, Ohio, New Jersey, Illinois,
22 Main, North Carolina, Texas, Florida and Kentucky.

1 Q. Are these the same water companies that Arizona-American used in its
2 application?

3 A. Arizona-American's cost of capital witness, Dr. Michael J. Vilbert, used the
4 same four water companies included in my proxy. In addition to these four
5 companies, Dr. Vilbert also used four other water companies¹⁰ that are
6 included in Value Line's Small and Mid Cap Edition.

7
8 Q. Why did you exclude the water companies that are followed in Value
9 Line's Small and Mid Cap Edition?

10 A. Value Line does not provide the same type of forward-looking information
11 (i.e. long-term estimates on return on common equity and share growth)
12 on small and mid-cap companies that it provides on the four water
13 companies that I used in my proxy. Consequently, these water companies
14 are not as suitable as the ones that I have used in my analysis.

15
16 Q. What criteria did you use in selecting the eight natural gas LDC's that
17 make up your proxy for Arizona-American?

18 A. As are the water companies that I just described, each of the natural gas
19 LDC's used in the proxy are publicly traded on a major stock exchange (all
20 eight trade on the NYSE) and are followed by Value Line. Each of the
21 eight LDC's are tracked in Value Line's natural gas (distribution) industry
22 segment. All of the companies in the proxy are engaged in the provision

¹⁰ Connecticut Water Service, Inc., Middlesex Water Company, SJW Corp. and York Water Co.

1 of regulated natural gas distribution services. Attachment B of my
2 testimony contains Value Line's most recent evaluation of the natural gas
3 proxy group that I used for my cost of common equity analysis.
4

5 Q. What companies are included your natural gas sample proxy?

6 A. The eight natural gas LDC's included in my proxy (and their NYSE ticker
7 symbols) are Cascade Natural Gas Corporation ("CGC"), KeySpan Corp.
8 ("KSE"), Laclede Group, Inc. ("LG"), Northwest Natural Gas Co. ("NWN"),
9 Peoples Energy Corporation ("PGL"), South Jersey Industries, Inc. ("SJI")
10 Southwest Gas Corporation ("SWX"), which is the dominant natural gas
11 provider in Arizona and presently has a rate application before the ACC,
12 and WGL Holdings, Inc. ("WGL").
13

14 Q. Briefly describe the regions of the U.S. served by the eight natural gas
15 LDC's that make up your sample proxy.

16 A. The eight LDC's listed above provide natural gas service to customers in
17 the Northeast (i.e. KSE which serves New York and New England), the
18 Middle Atlantic region (i.e. SJI which serves southern New Jersey and
19 WGL which serves the Washington D.C. metro area). The Midwest (i.e.
20 PGL which provides service to Chicago and its suburbs respectively, and
21 LG which serves the St. Louis area), and the Pacific Northwest (i.e. CGC
22 and NWN which serve Washington state and Oregon). Portions of
23 Arizona, Nevada and California are served by SWX.

1 Q. Please explain your DCF growth rate calculations for the sample
2 companies used in your proxy.

3 A. Schedule WAR-5 provides retention ratios, returns on book equity, internal
4 growth rates, book values per share, numbers of shares outstanding, and
5 the compounded share growth for each of the utilities included in the
6 sample for the historical observation period 2000 to 2004. Schedule
7 WAR-5 also includes Value Line's projected 2005, 2006, and 2008-10
8 values for the retention ratio, equity return, book value per share growth
9 rate, and number of shares outstanding.

10
11 Q. Please describe how you used the information displayed in Schedule
12 WAR-5 to estimate each comparable utility's dividend growth rate.

13 A. In explaining my analysis, I will use Southwest Water Company,
14 (NASDAQ symbol SWWC) as an example. The first dividend growth
15 component that I evaluated was the internal growth rate. I used the "b x r"
16 formula (described on pages 9 and 10) to multiply SWWC's earned return
17 on common equity by its earnings retention ratio for each year in the 2000
18 to 2004 observation period to derive the utility's annual internal growth
19 rates. I used the mean average of this five-year period as a benchmark
20 against which I compared the projected growth rate trends provided by
21 Value Line. Because an investor is more likely to be influenced by recent
22 growth trends, as opposed to historical averages, the five-year mean
23 noted earlier was used only as a benchmark figure. As shown on

1 Schedule WAR-5, Page 1, SWWC had sustainable internal growth that
2 averaged 5.44 percent over the course of the 2000 to 2004 observation
3 period. During this time frame, growth ranged from 7.22 percent in 2000,
4 to 7.51 percent in 2001 but then fell to 5.91 percent in 2002. Internal
5 growth continued to decline from 5.81 percent in 2003 to 0.75 percent in
6 the final year of the observation period. Value Line's analysts are
7 optimistic for the future, projecting growth of 2.84% for 2005, followed by
8 steady increases of 3.92% and 4.66% in the 2006 and 2008-10 time
9 frames. While a 5.00% to 5.50 percent rate of growth would appear to be
10 reasonable, given the aforementioned information on the historic behavior
11 of CWT's internal growth rate, projections for 15 percent on earnings and
12 9.00 percent on dividends by Value Line, lead me to believe that a 6.00%
13 rate of growth appears to be within the realm of possibility for SWWC.

14
15 Q. Please continue with the external growth rate component portion of your
16 analysis.

17 A. Schedule WAR-5 demonstrates that the pattern of share's outstanding
18 increased from 13.33 million to 19.40 during the 2000 to 2004 time frame.
19 Despite this share growth of 9.84 percent during the observation period,
20 Value Line is predicting that this level will increase to only 19.50 million in
21 2005. This trend is expected to continue during the 2006 and 2008-10
22 time frames. Value Line's analysts are forecasting an increase of 21.50
23 million shares outstanding by the end of 2010. After weighing these

1 projections, I believe that a 2.00% growth in shares is not unreasonable
2 for SWWC. My final dividend growth rate estimate for SWWC is 7.09
3 percent (6.00 percent internal + 1.09 percent external) and is shown on
4 Page 1 of Schedule WAR-4.

5
6 Q. What is your average dividend growth rate estimate using the DCF model
7 for the sample water utilities?

8 A. Based on the DCF model, my average dividend growth rate estimate is
9 7.20 percent as displayed on page 1 of Schedule WAR-4.

10
11 Q. Did you use the same approach to determine an average dividend growth
12 rate for the proxy comprised of natural gas LDC's?

13 A. Yes.

14
15 Q. What is your average dividend growth rate estimate using the DCF model
16 for the sample natural gas utilities?

17 A. Based on the DCF model, my average dividend growth rate estimate is
18 4.57 percent, which is also displayed on page 1 of Schedule WAR-4.

19
20
21
22 ...
23

1 Q. How does your average dividend growth rate estimates on water
2 companies compare to the growth rate data published by Value Line and
3 other analysts?

4 A. In the case of the water companies, my estimate falls between the
5 projections of analysts at both Zacks Investment Research, Inc. ("Zacks")
6 and Value Line. Schedule WAR-6 compares my sustainable growth
7 estimates with the five-year projections of both Zacks (Attachment C) and
8 Value Line. The 7.20 percent estimate that I have calculated is 120 basis
9 points higher than the projected 5-year EPS average of 6.00 percent for
10 Zacks (Zack's outlook for the water industry is 6.30 percent) and 47 basis
11 points lower than the 7.67 percent projection by Value Line (which is an
12 average of EPS, DPS and BVPS). My 7.20 percent estimate is 335 basis
13 points higher than the Value Line 5-year compound historical average also
14 displayed in Schedule WAR-6. This indicates that investors are expecting
15 increased performance from water utilities in the future. On balance, I
16 would say my 7.20 percent estimate is a good representation of the
17 growth projections that are available to the investing public.

18
19 Q. How does your average dividend growth rate estimates on natural gas
20 LDC's compare to the growth rate data published by Value Line and other
21 analysts?

22 A. In regard to the natural gas LDC's, my estimate falls 96 basis points below
23 the projections of analysts at Zacks (Zack's outlook for the natural gas

1 distribution industry is 9.20 percent) but only 3 basis points lower than
2 Value Line. However, as can also be seen on Schedule WAR-6, the 4.57
3 percent estimate that I have calculated is 22 basis points higher than the
4 average of the projected 5-year EPS means of 5.53 percent for Zacks, the
5 4.60 percent projection by Value Line (which is an average of EPS, DPS
6 and BVPS) and the five-year historical average of Value Line data on
7 EPS, DPS and BVPS. In fact, my 4.57 percent estimate is 99 basis points
8 higher than the Value Line 5-year compound historical average just noted.
9 As with water companies, this indicates that investors are expecting
10 increased performance from natural gas distribution companies in the
11 future. In the case of the LDC's I would say that my 4.57 percent
12 estimate, which is very close to Value Line's projections but somewhat
13 lower than Zack's estimates, is a fairly good representation of the growth
14 projections presented by securities analysts at this point in time.

15
16 Q. How did you calculate the dividend yields displayed in Schedule WAR-3?

17 A. For both the water companies and the natural gas LDC's I used the
18 estimated annual dividends, for the next twelve-month period, that
19 appeared in Value Line's October 28, 2005 Ratings and Reports water
20 services industry update and Value Line's December 16, 2005 Ratings
21 and Reports natural gas (Distribution) update. I then divided those figures
22 by the eight-week average price per share of the appropriate utility's
23 common stock. The eight-week average price is based on the daily

1 closing stock prices for each of the companies in my proxies for the period
2 October 24, 2005 to December 16, 2005.

3
4 Q. Based on the results of your DCF analysis, what is your cost of equity
5 capital estimate for the water and natural gas companies included in your
6 sample?

7 A. As shown in Schedule WAR-2, the cost of equity capital derived from my
8 DCF analysis is 9.50 percent for the water companies and 9.35 percent for
9 the natural gas LDC's.

10
11 **Capital Asset Pricing Model (CAPM) Method**

12 Q. Please explain the theory behind the capital asset pricing model ("CAPM")
13 and why you decided to use it as an equity capital valuation method in this
14 proceeding.

15 A. CAPM is a mathematical tool that was developed during the early 1960's
16 by William F. Sharpe¹¹, the Timken Professor Emeritus of Finance at
17 Stanford University, who shared the 1990 Nobel Prize in Economics for
18 research that eventually resulted in the CAPM model. CAPM is used to
19 analyze the relationships between rates of return on various assets and
20 risk as measured by beta.¹² In this regard, CAPM can help an investor to

¹¹ William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

¹² Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns

1 determine how much risk is associated with a given investment so that he
2 or she can decide if that investment meets their individual preferences.
3 Finance theory has always held that as the risk associated with a given
4 investment increases, so should the expected rate of return on that
5 investment and vice versa. According to CAPM theory, risk can be
6 classified into two specific forms: nonsystematic or diversifiable risk, and
7 systematic or non-diversifiable risk. While nonsystematic risk can be
8 virtually eliminated through diversification (i.e. by including stocks of
9 various companies in various industries in a portfolio of securities),
10 systematic risk, on the other hand, cannot be eliminated by diversification.
11 Thus, systematic risk is the only risk of importance to investors. Simply
12 stated, the underlying theory behind CAPM states that the expected return
13 on a given investment is the sum of a risk-free rate of return plus a market
14 risk premium that is proportional to the systematic (non-diversifiable risk)
15 associated with that investment. In mathematical terms, the formula is as
16 follows:

$$k = r_f + [\beta (r_m - r_f)]$$

17
18 where: k = cost of capital of a given security,
19 r_f = risk-free rate of return,
20 β = beta coefficient, a statistical measurement of a
21 security's systematic risk,

on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

1 r_m = average market return (e.g. S&P 500), and

2 $r_m - r_f$ = market risk premium.

3
4 Q. What security did you use for a risk-free rate of return in your CAPM
5 analysis?

6 A. I used a six-week average on a 91-day Treasury Bill ("T-Bill") rate.¹³ This
7 resulted in a risk-free (r_f) rate of return of 3.96 percent.

8
9 Q. Why did you use the short-term T-Bill rate as opposed to the yield on an
10 intermediate 5-year Treasury note or a long-term 30-year Treasury bond?

11 A. Because a 91-day T-Bill presents the lowest possible total risk to an
12 investor. As citizens and investors, we would like to believe that U.S.
13 Treasury securities (which are backed by the full faith and credit of the
14 United States Government) pose no threat of default no matter what their
15 maturity dates are. However, a comparison of various Treasury
16 instruments will reveal that those with longer maturity dates do have
17 slightly higher yields. Treasury yields are comprised of two separate
18 components,¹⁴ a true rate of interest (believed to be approximately 2.00
19 percent) and an inflationary expectation. When the true rate of interest is
20 subtracted from the total treasury yield, all that remains is the inflationary

¹³ A six-week average was computed for the current rate using 91-day T-Bill quotes listed in Value Line's Selection and Opinion newsletter from November 11, 2005 to December 16, 2005.

¹⁴ As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the true rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

1 expectation. Because increased inflation represents a potential capital
2 loss, or risk, to investors, a higher inflationary expectation by itself
3 represents a degree of risk to an investor. Another way of looking at this
4 is from an opportunity cost standpoint. When an investor locks up funds in
5 long-term T-Bonds, compensation must be provided for future investment
6 opportunities foregone. This is often described as maturity or interest rate
7 risk and it can affect an investor adversely if market rates increase before
8 the instrument matures (a rise in interest rates would decrease the value
9 of the debt instrument). As discussed earlier in the DCF portion of my
10 testimony, this compensation translates into higher rates of returns to the
11 investor. Since a 91-day T-Bill presents the lowest possible total risk to an
12 investor, it more closely meets the definition of a risk-free rate of return
13 and is the more appropriate instrument to use in a CAPM analysis.

14
15 Q. How did you calculate the market risk premium used in your CAPM
16 analysis?

17 A. I used both a geometric and an arithmetic mean of the historical returns on
18 the S&P 500 index from 1926 to 2004 as the proxy for the market rate of
19 return (r_m). The risk premium ($r_m - r_f$) that results by using the geometric
20 mean calculation for r_m is equal to 6.44 percent ($10.40\% - 3.96\% =$
21 6.44%). The risk premium that results by using the arithmetic mean
22 calculation for r_m is 8.44 percent ($12.40\% - 3.96\% =$ 8.44%).

1 Q. How did you select the beta coefficients that were used in your CAPM
2 analysis?

3 A. The beta coefficients (β), for the individual utilities used in both my
4 proxies, were calculated by Value Line and were current as of October 28,
5 2005 for the water companies and December 16, 2005 for the natural gas
6 LDC's. Value Line calculates its betas by using a regression analysis
7 between weekly percentage changes in the market price of the security
8 being analyzed and weekly percentage changes in the NYSE Composite
9 Index over a five-year period. The betas are then adjusted by Value Line
10 for their long-term tendency to converge toward 1.00. The beta
11 coefficients for the service providers included in my water company
12 sample ranged from 0.65 to 0.80 with an average beta of 0.73. The beta
13 coefficients for the LDC's included in my natural gas sample ranged from
14 0.65 to 0.85 with an average beta of 0.78.

15
16 Q. What are the results of your CAPM analysis?

17 A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation
18 using a geometric mean for r_m results in an average expected return of
19 8.63 percent for the water companies and 8.99 percent for the natural gas
20 LDC's. My calculation using the arithmetic mean results in an average
21 expected return of 10.08 percent for the water companies and 10.55
22 percent for the natural gas LDC's. Although there is some debate on this
23 point, I believe that the consensus among financial analysts appears to be

1 that the arithmetic mean is the better of the two averages. For this
2 reason, I believe that the 10.08 percent estimate for water and the 10.55
3 percent figure for gas are the better checks on the results of my respective
4 DCF analyses for water and gas.

5
6 Q. Please summarize the results derived under each of the methodologies
7 presented in your testimony.

8 A. The following is a summary of the cost of equity capital derived under
9 each methodology used:

<u>METHOD</u>	<u>RESULTS</u>
DCF (Water Sample)	9.50%
DCF (Natural Gas Sample)	9.35%
CAPM (Water Sample)	8.63% – 10.08%
CAPM (Natural Gas)	8.99% – 10.55%

15 Based on these results, my best estimate of an appropriate range for the
16 cost of equity is from 8.63 percent to 10.55 percent. My final
17 recommendation is a 10.00 percent return for Arizona-American's cost of
18 equity capital.

19
20 Q How did you arrive at your recommended 10.00 percent cost of common
21 equity?

22 A. My recommended 10.00 percent cost of common equity is the 9.50
23 percent result of my DCF analysis for water companies plus an additional

1 50 basis points for the increased financial risk faced by Arizona-American
2 as a result of the Company's debt heavy capital structure.

3
4 Q. Why have you made a 50 basis point upward adjustment to the results of
5 your DCF analysis?

6 A. The 50 basis point adjustment takes into consideration the higher level of
7 debt in the Company's capital structure. My recommended capital
8 structure for Arizona-American is comprised of approximately 63.0 percent
9 common equity capital and 37.0 percent debt. This capital structure has a
10 larger percentage of debt than the capital structures of the four water
11 companies and eight natural gas LDC's that I included in my DCF and
12 CAPM proxies. As can be seen in Schedule WAR-9, the utilities included
13 in my samples had capital structures of approximately of 50 percent
14 common equity and 50 percent debt, for water providers, and roughly 47
15 percent common equity and 53 percent debt for natural gas LDC's.
16 Because Arizona-American's capital structure has a higher percentage of
17 debt, the Company faces a higher level of financial risk (i.e. the risk of not
18 being able to meet debt service obligations) than the companies in my
19 proxies. For this reason a higher cost of equity is warranted and I have
20 decided to make such an adjustment. In this case, the 10.00 percent
21 return on common equity that I am recommending falls slightly below a
22 mean average of the higher 9.50 percent DCF result that I obtained using

1 a proxy of water utilities and the higher 10.55 percent CAPM result that I
2 obtained from my proxy of riskier LDC's.

3
4 Q. Is this the method that you have typically used to determine the cost of
5 equity capital in prior rate case proceedings?

6 A. Typically yes. With a few exceptions I have generally used the results
7 obtained from the DCF model as a basis for my final recommended cost of
8 equity capital while using the CAPM as a check on DCF results. My
9 decision to add another 50 basis points to my 9.50 percent DCF estimate
10 (for water providers) is consistent with the manner in which I arrived at my
11 9.61 percent cost of common equity for Arizona-American in the
12 Company's most recent rate case proceeding before the Commission. In
13 that case, the ACC eventually adopted ACC Staff's cost of common equity
14 recommendation of 9.00 percent, which also included a 50 basis point
15 adder for the Company's higher level of debt¹⁵.

16
17 **Current Economic Environment**

18 Q. Please explain why it is necessary to consider the current economic
19 environment when performing a cost of equity capital analysis for a
20 regulated utility.

21 A. Consideration of the economic environment is necessary because trends
22 in interest rates, present and projected levels of inflation, and the overall

¹⁵ Decision No. 67093, dated June 30, 2004

1 state of the U.S. economy determine the rates of return that investors earn
2 on their invested funds. Each of these factors represent potential risks
3 that must be weighed when estimating the cost of equity capital for a
4 regulated utility and are, most often, the same factors considered by
5 individuals who are investing in non-regulated entities also.

6
7 Q. Please discuss your analysis of the current economic environment.

8 A. My analysis includes a brief review of the economic events that have
9 occurred since 1990. Schedule WAR-8 displays various economic
10 indicators and other data that I will refer to during this portion of my
11 testimony.

12 In 1991, as measured by the most recently revised annual change in
13 gross domestic product ("GDP"), the U.S. Economy experienced a rate of
14 growth of negative 0.20 percent. This decline in GDP marked the
15 beginning of a mild recession that ended sometime before the end of the
16 first half of 1992. Reacting to this situation, the Federal Reserve Board
17 ("Federal Reserve" or "Fed"), chaired by noted economist Alan
18 Greenspan, lowered its benchmark federal funds rate¹⁶ in an effort to
19 further loosen monetary constraints - an action that resulted in lower
20 interest rates.

¹⁶ The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

1 During this same period, the nation's major money center banks followed
2 the Federal Reserve's lead and began lowering their interest rates as well.
3 By the end of the fourth quarter of 1993, the prime rate (the rate charged
4 by banks to their best customers) had dropped to 6.00 percent from a
5 1990 level of 10.01 percent. In addition, the Federal Reserve's discount
6 rate on loans to its member banks had fallen to 3.00 percent and short-
7 term interest rates had declined to levels that had not been seen since
8 1972.

9 Although GDP increased in 1992 and 1993, the Federal Reserve took
10 steps to increase interest rates beginning in February of 1994, in order to
11 keep inflation under control. By the end of 1995, the Federal discount rate
12 had risen to 5.21 percent. Once again, the banking community followed
13 the Federal Reserve's moves. The Fed's strategy, during this period, was
14 to engineer a "soft landing." That is to say that the Federal Reserve
15 wanted to foster a situation in which economic growth would be stabilized
16 without incurring either a prolonged recession or runaway inflation.

17
18 Q. Did the Federal Reserve achieve its goals during this period?

19 A. The Fed's strategy of decreasing interest rates to stimulate the economy
20 worked. The annual change in GDP began an upward trend in 1992. A
21 change of 4.50 percent and 4.20 percent were recorded at the end of
22 1997 and 1998 respectively. Based on daily reports that were presented
23 in the mainstream print and broadcast media during most of 1999, there

1 appeared to be little doubt among both economists and the public at large
2 that the U.S. was experiencing a period of robust economic growth
3 highlighted by low rates of unemployment and inflation. Investors, who
4 believed that technology stocks and Internet company start-ups (with little
5 or no history of earnings) had high growth potential, purchased these
6 types of issues with enthusiasm. These types of investors, who exhibited
7 what Chairman Greenspan described as "irrational exuberance," pushed
8 stock prices and market indexes to all time highs from 1997 to 2000.

9
10 Q. What has been the state of the economy over the last five years?

11 A. The U.S. economy entered into a recession around the end of the first
12 quarter of 2001. The bullish trend, which had characterized the last half of
13 the 1990's, had already run its course sometime during the third quarter of
14 2000. Economic data released since the beginning of 2001 had already
15 been disappointing during the months preceding the September 11, 2001
16 terrorist attacks on the World Trade Center and the Pentagon. Slower
17 growth figures, rising layoffs in the high technology manufacturing sector,
18 and falling equity prices (due to lower earnings expectations) prompted
19 the Fed to begin cutting interest rates as it had done in the early 1990's.
20 The now infamous terrorist attacks on New York City and Washington
21 D.C. marked a defining point in this economic slump and prompted the
22 Federal Reserve to continue its rate cutting actions through December
23 2001. Prior to the 9/11 attacks, commentators, reporting in both the

1 mainstream financial press and various economic publications including
2 Value Line, believed that the Federal Reserve Chairman was cutting rates
3 in the hope of avoiding the recession that the U.S. is still in the process of
4 recovering from.

5 Despite several intervals during 2002 and 2003 in which the Federal Open
6 Market Committee ("FOMC") decided not to change interest rates, moves
7 which indicated that the worst may be over and that the current recession
8 might have bottomed out during the last quarter of 2001, a lackluster
9 economy persisted. The continuing economic malaise and even fears of
10 possible deflation prompted the FOMC to make a thirteenth rate cut on
11 June 25, 2003. The quarter point cut reduced the federal funds rate to
12 1.00 percent, the lowest level in 45 years.

13 Even though some signs of economic strength, that were mainly attributed
14 to consumer spending, began to crop up during the latter part of 2002 and
15 into 2003, Chairman Greenspan appeared to be concerned with sharp
16 declines in capital spending in the business sector.

17 During the latter part of 2003, the FOMC went on record as saying that it
18 intended to leave interest rates low "for a considerable period." After its
19 two-day meeting that ended on January 28, 2004, the FOMC stated "that
20 with inflation 'quite low' and plenty of excess capacity in the economy,
21 policy-makers 'can be patient in removing its policy accommodation.'"¹⁷
22

¹⁷ Wolk, Martin, "Fed leaves short-term rates unchanged," MSNBC, January 28, 2004.

1 Q. What actions has the Federal Reserve taken in terms of interest rates
2 since the beginning of 2001?

3 A. As noted earlier, from January 2001 to June 2003 the Federal Reserve cut
4 interest rates a total of thirteen times. During this period, the federal funds
5 rate fell from 6.50 percent to 1.00 percent. The FOMC reversed this trend
6 on June 29, 2004 and raised the federal funds rate 25 basis points to 1.25
7 percent. Between June 29, 2004 and December 13, 2005, the FOMC has
8 raised the federal funds rate twelve more times to its current level of 4.25
9 percent (the next scheduled meeting of the FOMC will be on January 31,
10 2006). As expected, banks have followed the Fed's lead and have
11 boosted the prime rate to its current level of 7.25 percent. According to an
12 article that appeared in the December 2, 2004 edition of The Wall Street
13 Journal, the FOMC's decision to begin raising rates was viewed as a
14 move to increase rates from emergency lows in order to avoid creating an
15 inflation problem in the future as opposed to slowing down the
16 strengthening economy¹⁸. In other words, the Fed was trying to head off
17 inflation *before* it became a problem.

18 Since it began increasing the federal funds rate in June 2004, the Federal
19 Reserve had stated that it would increase rates at a "measured" pace.

20 Many analysts and economists interpreted this language to mean that
21 Chairman Greenspan would be cautious in increasing interest rates too

¹⁸ McKinnon, John D. and Greg IP, "Fed Raises Rates by a Quarter Point," The Wall Street Journal, September 22, 2004.

1 quickly in order to avoid what is considered to be one of the Fed's few
2 blunders during Greenspan's tenure – a series of increases in 1994 that
3 caught the financial markets by surprise after a long period of low rates.
4 The rapid rise in rates resulted in financial turmoil, which contributed to the
5 bankruptcy of Orange County, California and the Mexican peso crisis¹⁹.
6

7 Q. Putting this all into perspective, how have the Fed's actions over the past
8 five years affected benchmark rates?

9 A. Virtually all of the benchmark rates have fallen to levels not seen in over
10 forty-five years. The Fed's actions have had the overall effect of reducing
11 the cost of many types of business and consumer loans. Despite the
12 recent increases in the federal funds rate, the federal discount rate (the
13 rate charged to member banks) has fallen from 5.73 percent in 2000, to its
14 present level of 5.25 percent. Despite recent increases by the FOMC,
15 rates are still at historically low levels.
16

17 Q. What has been the trend in other leading interest rates over the last year?

18 A. As of December 20, 2005, all of the leading interest rates have edged up.
19 The prime rate has increased from 5.00 percent a year ago to a current
20 level of 7.25 percent. The benchmark federal funds rate, just discussed,
21 has increased from 2.00 percent, in December 2004, to its current level of
22 4.25 percent (the result of the thirteen quarter point increases noted

¹⁹ Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.

1 earlier). The yields on all maturities of U.S. Treasury instruments, with the
2 exception of the 30-year and 30-year zero coupon bonds, which have
3 fallen 16, and 31 basis points respectively since December 2004, have
4 increased over the past year. This unusual situation, in which long-term
5 rates are falling as short-term rates are rising, is creating a flat yield curve
6 that has been described by Chairman Greenspan as a "conundrum."²⁰
7 The 91-day T-bill rate, used in my CAPM analysis, has increased from
8 2.23 percent, in December 2004, to 3.93 percent today. The 1-Year
9 Treasury Constant Maturity rate has also increased from 2.59 percent
10 over the past year to 4.35 percent today. Again, these levels are still low
11 when they are compared with yields during the early nineties displayed on
12 Schedule WAR-8.

13
14 Q. How have economists and members of the investment community viewed
15 the Fed's rate actions since June 2004?

16 A. The change in the Fed's language from "considerable period" to "patient"
17 to "measured," that have been noted through the course of my testimony,
18 has pretty much summed up the Fed's course of action during the
19 economic recovery that is still in progress. In his October 2004 column for
20 Wells Capital Management's ("Wells") Monthly Market Outlook publication,
21 Senior Economist Gary E. Schlossberg viewed the Fed's credit tightening
22 action as a trend that would likely continue barring an unraveling of the

²⁰ Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005.

1 economic recovery, a major disruption in the financial markets or a
2 renewed threat of declining prices. Mr. Schlossberg believed then that the
3 Fed was determined to engineer a fundamental shift from its past policy of
4 "aggressive accommodation" to what he considered to be a more "neutral"
5 policy stance (determined by both the rate of inflation and an additional
6 "premium" of possibly 1.00 percent to 1.50 percent) via a series of rapid
7 fire quarter-point (i.e. 25 basis points) increases that will result in a federal
8 funds rate of 4.00 percent to 4.50 percent by the end of 2005. Mr.
9 Schlossberg's expectation of future incremental increases in the federal
10 funds rate was also shared at the time by Mickey Levy, Chief Economist
11 for Bank of America, and by Value Line analysts. In the October 1, 2004
12 edition of Value Line's "Selection & Opinion" publication, Value Line's
13 analysts stated that they believed that the Fed was following a prudent
14 course. In their opinion the Fed's interest rate cutting helped to avoid a
15 more serious recession and the Fed's present course of action will help to
16 insure that the current upturn in the economy is sustained while keeping
17 inflation low and under control at the same time.

18
19 Q. What is the current outlook for interest rates, inflation, and the economy?

20 A. The views expressed by Messrs Levy and Schlossberg during the last
21 quarter of 2004 have only been off target by about three months. A recent

1 article²¹ in the January 4, 2006 edition of The Wall Street Journal reported
2 that, according to the minutes of the FOMC's December 2005 meeting,
3 members of the Fed's rate setting board are less worried about inflation
4 and may only raise interest rates one or two more times in the coming
5 months. If the Fed continues its trend of raising rates in 25 basis point
6 increments, the federal funds rate should level off at either 4.50 percent or
7 4.75 percent within the first quarter of 2006.

8 According to analysts and economists at both Value Line and Wells, the
9 overall outlook for economic growth, and the current low interest rate
10 environment, appears to be good despite a moderate pace of GDP growth
11 and higher oil prices. In their most recent Selection & Opinion outlook
12 published on Friday, December 30, 2005, Value Line analysts stated the
13 following:

14 "Now as we look to a new year, we find that the economic
15 indicators are again positive, with the nation's gross domestic
16 product likely to increase by around 3.5%. Oil prices, which
17 briefly topped \$70 a barrel before settling in at a slightly less
18 alarming \$55-\$65, will probably stay fairly close to their more
19 recent range, absent any global or domestic shocks. Such
20 relative stability is likely to keep inflationary excesses at bay
21 and encourage the Fed to call a halt to its monetary tightening
22 efforts rather early in the new year."

23 The following quote²² by Wells' Chief Investment Strategist, James W.
24 Paulsen, Ph.D., had this to say:

25 "While we believe that the stock market will be dictated by the
26 pace of real economic growth this year, the bond market and
27 Fed actions will depend on the direction of core consumer price
28 inflation. Until now, Fed policy has been aimed at reversing the

²¹ Ip, Greg, "Fed Suggests It's Close to Ending Run of Interest Rate Rises," The Wall Street Journal, January 4, 2006.

²² Wells Capital Management's Economic and Market Perspective, January 2006, Page 1.

1 emergency discount and returning short-term interest rates back
2 to a neutral range. Future policy actions will now depend primarily
3 on inflation evidence. Throughout this recovery the bond market
4 has consistently shown a newfound attitude – 'strong real economic
5 growth doesn't scare me, only evidence of actual core inflation
6 will get me to raise yields'."

7
8
9 Q. How has the water industry segment of the U.S. economy fared recently?

10 A. In his October 28, 2005 update on the water services industry, Value Line
11 analyst Andre Costanza stated that after a rebound in 2004, the industry
12 had reverted back to having trouble meeting earnings expectations as a
13 result of weather conditions and infrastructure costs. Mr. Costanza also
14 went on to say that the companies included in my proxy had posted "a
15 solid earnings recovery" during 2004. Although none of the water utilities
16 followed by Value Line stand out for capital gains potential, they do offer
17 above average dividend yields and should be attractive to income oriented
18 investors according to Mr. Costanza (Attachment A).

19
20 Q. What has been the trend in Value Line's return on common equity
21 projections for the water utility industry over the last six years?

22 A. Up until this year, and with the exception of 2003, Value Line's analysts
23 have been making downward projections on water industry book returns
24 on common equity ("ROE"). The following is a summary of Value Line's
25 water utility industry composite statistics on ROE, over the aforementioned
26 period, which are exhibited in Attachment D of my testimony:

Value Line Published Projected Returns 2000 – 2005

	<u>2000</u>	<u>2001</u>	<u>2003-05</u>
Value Line ROE Projection – Nov. 3, 2000	11.0%	11.0%	12.0%
	<u>2001</u>	<u>2002</u>	<u>2004-06</u>
Value Line ROE Projection – Nov. 2, 2001	10.5%	11.0%	11.5%
	<u>2002</u>	<u>2003</u>	<u>2005-07</u>
Value Line ROE Projection – Nov. 1, 2002	10.0%	10.5%	11.5%
	<u>2003</u>	<u>2004</u>	<u>2006-08</u>
Value Line ROE Projection – Oct. 31, 2003	10.0%	11.0%	12.0%
	<u>2004</u>	<u>2005</u>	<u>2007-09</u>
Value Line ROE Projection – Oct. 29, 2004	9.5%	9.5%	10.0%
	<u>2005</u>	<u>2006</u>	<u>2008-10</u>
Value Line ROE Projection – Oct. 28, 2005	11.0%	11.0%	11.5%

Value Line Published Actual Returns 2001 - 2005

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Value Line historic Returns – Oct. 28, 2005	10.7%	11.2%	8.8%	10.7%

In addition to the downward trend in projections that I just addressed, the above summary also illustrates the fact that Value Line's analysts have been somewhat more optimistic in their forward-looking one-year and long-term projections. As can be seen below, Value Line's analysts have been somewhat high in their coming year projections on ROE.

<u>Year</u>	<u>Value Line Projected</u>	<u>Actual Book Return on ROE</u>	<u>Difference</u>
2001	11.0%	10.7%	-30 Basis Points
2002	11.0%	11.2%	20 Basis Points
2003	10.5%	8.8%	-170 Basis Points
2004	11.0%	10.7%	-30 Basis Points

1 As can be seen above, with the exception of the 2002 operating period,
2 Value Line's analyst's projections on water utility ROE's from one year out
3 were 30 to 170 basis points higher than the actual returns booked by the
4 water utilities (this is why I only rely on Value Line projections as guides in
5 developing my growth estimates for the DCF model).
6

7 Q. Please summarize how the economic data just presented relates to
8 Arizona-American.

9 A. The current benign rate of inflation translates into stable and even possibly
10 declining prices for goods and services, which in turn means that Arizona-
11 American can expect its present operating expenses to either remain
12 stable or possibly decline in the coming years. Lower interest rates would
13 also benefit Arizona-American in regard to any short or long-term
14 borrowing needs that the Company may have. Lower interest rates, would
15 further help to accelerate growth in new construction projects and home
16 developments (which have been on an upward trend according to
17 information presented by Value Line) in the Company's service territories,
18 and may result in new revenue streams to Arizona-American.
19
20
21 ...
22
23

1 Q. After weighing the economic information that you've just discussed, do you
2 believe that the 10.00 percent cost of equity capital that you have
3 estimated is reasonable for Arizona-American?

4 A. I believe that my recommended 10.00 percent cost of equity will provide
5 Arizona-American with a reasonable rate of return on the Company's
6 invested capital when economic data on interest rates (that are still low by
7 historical standards), continued growth in new housing construction
8 (attributed to historically low interest rates), and the low and stable outlook
9 for inflation are all taken into consideration. As I noted earlier, the Hope
10 decision determined that a utility is entitled to earn a rate of return that is
11 commensurate with the returns it would make on other investments with
12 comparable risk. I believe that my DCF analysis has produced such a
13 return. The results that I have obtained are consistent with Value Line's
14 view that the water utility stocks included in my proxy "offer an above
15 average dividend yield."

16
17
18
19
20
21
22 ...
23

CAPITAL STRUCTURE

Q. Have you reviewed Arizona-American's testimony regarding the Company's proposed capital structure?

A. Yes, I have.

Q. Please describe the Company's proposed capital structure.

A. The Company is proposing a capital structure comprised of approximately 63.0 percent common equity and 37.0 percent debt.

Q. What capital structure are you proposing for Arizona-American?

A. I have adopted the Company-proposed capital structure.

Q. Is Arizona-American's capital structure in line with industry averages?

A. No. As discussed earlier, Arizona-American's capital structure is heavier in debt than the capital structures of the other water companies included in my cost of capital analysis (Schedule WAR-9). The capital structures for those utilities averaged 50.1 percent for debt and 49.9 percent for equity (49.8 percent common equity + 0.1 percent preferred equity).

Q. In terms of risk, how does Arizona-American's capital structure compare to the water utilities in your sample?

A. The water utilities in my sample would be considered as having a lower level of financial risk (i.e. the risk associated with debt repayment)

1 because of their lower levels of debt. The additional financial risk due to
2 debt leverage is embedded in the cost of equities derived for those
3 companies through the DCF analysis. Thus, the cost of equity derived in
4 my DCF analysis is applicable to companies that are not as leveraged
5 and, theoretically speaking, not as risky than a utility with a level of debt
6 similar to Arizona-American's. In the case of a publicly traded company,
7 such as those included in my proxy, a company with Arizona-American's
8 level of debt would be perceived as having a higher level of financial risk
9 and would therefore also have a higher expected return on common
10 equity.

11
12 Q. Have you made an adjustment to your DCF estimate based on this
13 perception of higher financial risk?

14 A. Yes. As I explained earlier, I have made a 50 basis point adjustment to
15 my recommended cost of equity based on the results of my DCF and
16 CAPM analyses.

17
18 Q. Have you reviewed the Arizona-American's testimony on the Company-
19 proposed cost of debt?

20 A. Yes, I have reviewed the testimony prepared by Mr. David P. Stephenson,
21 the Company's Rate Regulation Manager for the Western Region of
22 American Water Works Company.

1 Q. Briefly explain how Arizona-American calculated the Company-proposed
2 cost of debt.

3 A. The Company-proposed cost of debt is the weighted cost of Arizona-
4 American's various debt instruments that were issued to finance assets
5 that were in place during the Test Year. In arriving at the Company-
6 proposed weighted cost of these instruments, Mr. Stephenson made an
7 upward adjustment to the cost of two issues of long-term promissory notes
8 that will be refinanced in November of 2006 when they are scheduled to
9 mature. Mr. Stephenson's adjustment resulted in a 70 basis point
10 increase, which puts the cost of the notes at 5.71 percent.
11

12 Q. Do you agree with Mr. Stephenson's adjustment?

13 A. Yes. Mr. Stephenson stated in his testimony that the Company is rated A
14 by Standard and Poor's and Baa 1 by Moody's. At the time that he wrote
15 his testimony, A and Baa rated utility bonds had an average yield of 5.74
16 percent. As of January 6, 2006, A and Baa rated utility bonds had an
17 average yield of 5.72 percent which is just slightly higher than Mr.
18 Stephenson's adjusted cost. Given the current outlook on the near-term
19 direction of interest rates, I believe that Mr. Stephenson's adjustment is
20 reasonable.
21

22 Q. Have you accepted the Company's 5.42 percent cost of long-term debt?

23 A. Yes I have.

1 Q. How does your recommended cost of equity capital compare with the cost
2 of equity capital proposed by the Company?

3 A. The 12.00 percent cost of equity capital proposed by the Company's cost
4 of capital witness is 200 basis points higher than the 10.00 percent cost of
5 equity capital that I am recommending.
6

7 Q. How does the Company's proposed weighted cost of capital compare with
8 your recommendation?

9 A. The Company has proposed a weighted cost of capital of 7.84 percent.
10 This composite figure is the result of a weighted average of Arizona-
11 American's proposed 5.42 percent cost of debt and a 12.00 percent cost
12 of equity capital. The Company-proposed 7.84 percent weighted cost of
13 capital is 74 basis points higher than the 7.10 percent weighted cost that I
14 am recommending.
15

16 **COMMENTS ON ARIZONA-AMERICAN'S COST OF EQUITY CAPITAL**

17 **TESTIMONY**

18 Q. Who estimated the Company-proposed cost of equity capital?

19 A. Dr. A. Lawrence Kolbe and Dr. Thomas M. Vilbert (who I noted earlier in
20 my testimony) estimated the Company-proposed cost of equity capital for
21 PV Water. Both witnesses are principals of the Brattle Group, a consulting
22 firm located in Cambridge, Massachusetts.
23

1 Q. Briefly describe Dr. Kolbe's testimony.

2 A. Dr. Kolbe's testimony presents a final cost of common equity estimate of
3 12 percent to 13 percent for Paradise Valley based on the results of the
4 cost of equity analysis performed by Dr. Vilbert and on his own work on
5 how the cost of common equity is impacted by the level of debt that a
6 utility has.

7
8 Q. What methods did Dr. Vilbert use to arrive at his cost of common equity?

9 A. Dr. Vilbert used two methods to estimate a cost of equity capital. The
10 DCF method and what he refers to in his testimony as a risk positioning
11 method, which utilizes both the CAPM and empirical CAPM ("ECAPM")
12 models. Dr. Vilbert places more emphases on the results of his risk
13 positioning analysis as opposed to the DCF. In making his final cost of
14 equity estimates for each methodology that he uses, Dr. Vilbert makes the
15 upward adjustments advocated by Dr. Kolbe in order to arrive at an after
16 tax weighted average cost of capital ("ATWACC") for PV Water.

17
18 Q. Were there any differences in the way that you conducted your DCF
19 analysis and the way that Dr. Vilbert conducted his?

20 A. Yes, Dr. Vilbert conducted two separate DCF analyses. His first DCF
21 analysis is a one-step constant growth model, similar to the one that I
22 used, which uses a proxy of eight water providers. Dr. Vilbert's second

1 DCF analysis is a variation on the two-step or multi-stage growth DCF
2 model.

3
4 Q. Why didn't you conduct a multi-stage DCF analysis like the one conducted
5 by Dr. Vilbert?

6 A. Primarily because the growth rate component that I estimated for my
7 single-stage model already takes into consideration both the near-term
8 and long-term growth rate projections that Dr. Vilbert averaged in his
9 multi-stage model. This being the case, I saw no need to conduct a
10 separate DCF analysis. As I pointed out earlier in my testimony, the
11 method that I used also takes into consideration analysts' tendency to
12 make overly optimistic growth estimates. This tendency, referred to as
13 optimism bias by Dr. Vilbert, is addressed in Appendix C of his testimony
14 and, according to Dr. Vilbert, is eliminated by the use of a long-term
15 growth rate estimate for gross domestic product ("GDP") in his multi-stage
16 model.

17
18 Q. What is the difference between your DCF results and Dr. Vilbert's first
19 DCF result?

20 A. The 9.50 percent cost of common equity derived in my DCF analysis, that
21 uses an average of four sample water companies, is 100 to 130 basis
22 points lower than the averages of 10.50 to 10.80 percent derived in Dr.
23 Vilbert's one-step DCF analysis, which is an average of eight sample

1 water companies (as exhibited in column 3 of Table No. MJV-7 of Dr.
2 Vilbert's testimony). This comparison does not include a number of other
3 factors (i.e. debt and equity ratios and income tax rates) which Dr. Vilbert
4 employs to reduce the aforementioned averages to a range of 8.10 to 8.20
5 percent respectively for the ATWACC displayed on page 50 of his
6 testimony.

7
8 Q. Please explain why your 9.50 percent DCF result is 100 to 130 basis
9 points lower than the 10.50 to 10.80 percent range produced in Dr.
10 Vilbert's one-step DCF model.

11 A. One reason is the dividend yield calculation, which can be attributed to
12 observation period timing. Over the past two years there have been no
13 substantial changes in dividend payouts but stock prices have increased.
14 Dr. Vilbert's higher dividend yields are attributed to the fact that his
15 average stock prices, (P_0) of the DCF formula ($k = (D_1 \div P_0) + g$), were
16 taken over an observation period (which appears to have been sometime
17 in April of 2005) when the water companies in his sample were trading at
18 lower prices than they were during the eight-week observation period
19 (October 24, 2005 to December 16, 2005) that I based my calculation on.
20 The difference between the average closing stock prices used in my
21 analysis and Dr. Vilbert's analysis are as follows:
22
23

1		<u>Rigsby</u>	<u>Vilbert</u>	<u>Difference</u>
2	AWR	\$31.33	\$25.60	\$5.73
3	CWT	\$36.29	\$33.83	\$2.46
4	SWWC	\$13.87	\$10.97	\$2.90
5	WTR	\$32.68	\$24.50	\$8.18

6 In addition, the differences in Dr. Vilbert's annualized dividends, for the
7 four water companies used in my sample, ranged from \$0.00 to \$0.05.
8 Concentrating strictly on the four water companies used in my sample, his
9 analysis produced an average annualized dividend yield of 2.68 percent
10 versus the 2.30 percent, which I calculated (Schedule WAR-3).

11 In the growth portion (g) of his first DCF analysis, Dr. Vilbert relied on
12 IBES and Value Line analysts growth rate estimates and then added a
13 quarterly growth rate to that figure to arrive at an average growth rate of
14 9.60 percent, for the four water companies in my sample versus my 7.20
15 percent dividend growth rate (Schedule WAR-4). The apples to apples
16 comparison of the DCF results for the four common companies (i.e. AWR,
17 CWT, SWWC and WTR) used in our sample would be 12.28 percent for
18 Dr. Vilbert versus my 9.50 percent (before any other adjustments made by
19 Dr. Vilbert).

20
21
22 ...
23

1 Q. What is the difference between your DCF result and Dr. Vilbert's two-step
2 or multi-stage growth model DCF result?

3 A. The 9.50 percent cost of common equity derived in my DCF analysis (that
4 uses four sample water companies) is 80 to 50 basis points higher than
5 the 8.70 to 9.0 percent cost of common equity derived in Dr. Vilbert's two-
6 step DCF analysis that used long-term GDP growth estimates (which he
7 believes helps to eliminate optimism bias) and is an average of eight
8 sample water companies (as also exhibited in column 3 of Table No. MJV-
9 7 of Dr. Vilbert's testimony). Once again, this comparison does not
10 include the other factors that I noted earlier which Dr. Vilbert employs to
11 reduce the aforementioned averages to a range of 6.90 to 7.00 percent
12 respectively for the ATWACC figure displayed on page 51 of his
13 testimony.

14
15 Q. What were the results of Dr. Vilbert's DCF analysis using a sample of
16 natural gas providers?

17 A. Dr. Vilbert's DCF analyses (which used the same eight LDC's that I used)
18 produced results that ranged from 9.6 for the single stage model to 9.6 to
19 9.4 for the multi-stage model (once again this is before any further
20 adjustments). His DCF results (for both models) ranged from 5 to 25
21 basis points higher than the results that I obtained from the single stage
22 model.

1 Q. Please describe the results of Dr. Vilbert's risk positioning analysis.

2 A. For Water providers, Dr. Vilbert's results ranged from 8.00 percent to 8.90
3 percent using unadjusted Value Line betas and a long-term rate of 5.00
4 percent in the Sharpe-Litner version of the CAPM and in two separate
5 versions of the ECAPM. Dr. Vilbert's short-term results for water
6 providers, using a risk free rate of 3.00 percent and three different
7 versions of the ECAPM, ranged from 6.70 to 8.60 percent. Dr. Vilbert's
8 ATWACC for PV Water ranged from 11.70 percent to 13.40 percent using
9 the long-term 5.00 percent rate and 9.30 percent to 12.70 percent using
10 the short-term 3.00 percent rate.

11 For natural gas LDC's, Dr. Vilbert's results ranged from 8.50 percent to
12 9.30 percent using unadjusted Value Line betas and a long-term rate of
13 5.00 percent in the Sharpe-Litner version of the CAPM and in two
14 separate versions of the ECAPM. Dr. Vilbert's short-term results for
15 LDC's, using a risk free rate of 3.00 percent and three different versions of
16 ECAPM, ranged from 7.50 to 8.90 percent. After making his upward
17 adjustments, Dr. Vilbert's ATWACC for PV Water ranged from 11.30
18 percent to 12.40 percent using the long-term 5.00 percent rate and 10.10
19 percent to 12.00 percent using the short-term 3.00 percent rate.

20
21
22 ...
23

1 Q. Please compare the results of your CAPM analyses based on a sample of
2 water providers with the results of Dr. Vilbert's risk positioning analysis
3 that looked at water providers.

4 A. The 8.63 percent result of my CAPM analysis using a geometric mean
5 falls between Dr. Vilbert's unadjusted 8.00 percent to 8.90 percent long-
6 term results and is 3 to 190 basis points higher than the results of his
7 short-term results. The 10.08 percent result of my CAPM analysis using
8 an arithmetic mean is 118 to 208 basis points higher than the long-term
9 unadjusted results estimated by Dr. Vilbert and is 148 to 338 basis points
10 higher than Dr. Vilbert's short-term estimates. Dr. Vilbert's long-term
11 ATWACC estimates are 307 to 477 basis points higher than my 8.63
12 percent estimate using a geometric mean and 90 to 260 basis points
13 higher than my 10.80 percent estimate using an arithmetic mean. His
14 short-term ATWACC results are 67 to 407 basis points higher than my
15 8.63 percent estimate using a geometric mean. My 10.80 percent
16 estimate using an arithmetic mean falls between Dr. Vilbert's short-term
17 ATWACC estimates of 9.30 to 12.70 percent.

18
19 Q. Please compare the results of your CAPM analyses based on a sample of
20 natural gas LDC's with the results of Dr. Vilbert's risk positioning analysis
21 that looked at LDC's.

22 A. The 8.99 percent result of my CAPM analysis using a geometric mean
23 falls between Dr. Vilbert's unadjusted 8.50 percent to 9.30 percent long-

1 term results and also falls between his short-term results ranging from
2 7.50 to 8.90 percent. The 10.55 percent result of my CAPM analysis
3 using an arithmetic mean is 125 to 205 basis points higher than the
4 unadjusted long-term results estimated by Dr. Vilbert and is 165 to 305
5 basis points higher than Dr. Vilbert's long-term estimates. Dr. Vilbert's
6 long-term ATWACC estimates are 231 to 341 basis points higher than my
7 8.99 percent estimate using a geometric mean and 75 to 185 basis points
8 higher than my 10.55 percent estimate using an arithmetic mean. His
9 short-term ATWACC results are 111 to 301 basis points higher than my
10 8.99 percent estimate using a geometric mean. My 10.55 percent
11 estimate using an arithmetic mean falls between Dr. Vilbert's short-term
12 ATWACC estimates of 10.10 to 12.00 percent.

13
14 Q. What financial instruments did Dr. Vilbert use as proxies for his long-term
15 and short-term risk free rates of return?

16 A. Dr. Vilbert did not use any specific instruments such as the 91-day
17 Treasury bill that I used as a proxy. Instead he used estimates of 5
18 percent and 3 percent for his respective long-term and short-term proxies.

19
20 Q. Where do Dr. Vilbert's 3 and 5 percent rates stand in current interest rate
21 environment?

22 A. Dr. Vilbert's 3 and 5 percent estimates are actually higher and lower than
23 the yields on actual U.S. Treasury instruments at this point in time. As can

1 be seen in Attachment E of my testimony, the current yield curve for
2 Treasury securities is virtually flat as a result of falling long-term rates and
3 rising short-term yields. As of December 29, 2005, the spread between
4 the three-month yield of 3.99 percent and the 30-year yield of 4.51 percent
5 was only 52 basis points. Given these facts, I believe my 3.96 percent T-
6 Bill rate is probably producing a slightly better estimate.

7
8 Q. Did Dr. Vilbert use the same Value Line betas that you used in your
9 analysis?

10 A. No. As I noted earlier Dr. Vilbert used lower unadjusted betas in his
11 CAPM and ECAPM models than the higher adjusted betas that I used.
12 The use of adjusted betas in the ECAPM model typically produces
13 unreliable results.

14
15 Q. Please compare the market risk premium used in your CAPM analysis
16 with the market risk premium used by Dr. Vilbert.

17 A. I used a market risk premium of 6.44 percent in my model using a
18 geometric mean and a market risk premium of 8.44 in my model using an
19 arithmetic mean. Dr. Vilbert used a market risk premium of 8.00 percent
20 in his short-term analyses and a market risk premium of 6.50 percent in
21 his long-term analyses.

1 Q. How did Arizona-American arrive at its final 12.00 percent cost of common
2 equity for PV Water?

3 A. The Company has settled on the low end of Dr. Kolbe's 12 percent to 13
4 percent estimate on a cost of equity capital for PV Water.

5
6 Q. Please comment on Dr. Kolbe's testimony, which advocates the higher
7 ATWACC estimates made by Dr. Vilbert.

8 A. Dr. Kolbe's testimony presents a lengthy explanation as to why an upward
9 adjustment is needed for PV water's cost of common equity as a result of
10 Arizona-American's leveraged capital structure. While I believe that Dr.
11 Kolbe's testimony is an interesting exercise in academia, and may have
12 weight in regard to business entities that operate in a truly competitive
13 environment, the higher rate of return that he advocates for PV water is
14 not warranted. While PV Water may have a higher degree of financial
15 risk, as a result of the Company's leveraged capital structure, it is still a
16 regulated entity that can apply for rate relief when the need arises. This
17 being the case, the Company is actually less risky than firms that have
18 nothing to turn to but bankruptcy court when their debt becomes
19 excessively burdensome. The fact that the ACC has allowed cost
20 recovery for increased water-testing costs, deferred Central Arizona
21 Project costs and the costs associated with more stringent levels of
22 arsenic is proof that water utilities in Arizona operate in a favorable
23 regulatory environment which eliminates the need for the higher rates of

1 return advocated by Dr. Kolbe. For these reasons I believe that the
2 Commission should adopt my recommended 10.00 percent return on
3 common equity, which contains a 50 basis point upward adjustment for
4 the Company's financial risk.

5
6 Q. Does your silence on any of the issues, matters or findings addressed in
7 the testimony of Dr. Kolbe, Dr. Vilbert, Mr. Stephenson or any other
8 witness for Arizona-American constitute your acceptance of their positions
9 on such issues, matters or findings?

10 A. No, it does not.

11
12 Q. Does this conclude your testimony on Arizona-American?

13 A. Yes, it does.

APPENDIX 1

Qualifications of William A. Rigsby

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 & 1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Revenue Auditor II
Arizona Department of Revenue
Corporate Income Tax Audit Unit
Phoenix, Arizona
November 1993 – October 1994

Tax Examiner Technician I
Arizona Department of Revenue
Transaction Privilege Tax Audit Unit
Phoenix, Arizona
July 1991 – November 1993

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase

ATTACHMENT A

After showing some brief signs of a turnaround last year, the Water Utility Industry appears to have reverted back to its old ways. Feeling the effects of uncooperating weather conditions and high infrastructure costs, the stocks in this industry have had trouble meeting earnings expectations and, as a result, have sorely underperformed the broader market in recent months. In fact, none of the water utility stocks that are covered in the next few pages are ranked better than 3 (Average) for Timeliness, based on our momentum based ranking system. As a whole, the industry ranks near the bottom of the Value Line investment universe.

And the future does not look much brighter. Although a more favorable regulatory landscape and normalized weather conditions ought to provide a better landscape, we are concerned that rapidly growing infrastructure costs will continue to undermine this group's earnings out to late decade.

Easing Tensions

Although designed to keep a balance of power between consumers and providers, regulatory authorities, have long been a thorn in the side of water utility companies. Rate relief case decisions had often been unfavorable and untimely, with some rulings being pushed off for as long as two years. But, it finally looks as though things are taking a turn for the better, especially in the state of California. The California Public Utilities Commission (CPUC), which is responsible for ruling on general rate case requests in the Golden State, has been handing down more-favorable and timely decisions in recent months, thanks, in part, to the efforts of Governor Schwarzenegger. He has replaced members thought to be antagonists of rate relief with more-business-friendly members, and additional moves may be in the works. The recent changes makes for a favorable backdrop for water utility companies operating in California, such as *American States Water Co.* and *California Water Service Group*.

Costs

But, while regulators are easing their stance on rate case decisions, this does not look to be the case for infrastructure demands. Many of the current infrastruc-

INDUSTRY TIMELINESS: 93 (of 98)

tures are upwards of 100 years old and are in severe need of maintenance and, in some cases, massive renovations and rebuilding. And, given the geopolitical volatility worldwide and the heightened threat of bioterrorism on U.S. water pipelines and reservoirs, these costs are likely to continue to only rise, as companies strive to comply with EPA water purification standards. Infrastructure repair costs are expected to climb in the hundreds of millions of dollars over the next two decades, putting many smaller water companies at a distinct disadvantage. With a dearth of resources to fund these improvements, many such companies are being forced to sell. But, given the current landscape, larger companies with the flexibility and capital to deal with the higher costs are utilizing the weakness to add additional legs of growth to their businesses. *Aqua America*, the largest water utility in our survey, for example, has made more than 90 acquisitions in the past five years, doubling its revenue base during that time. The company does not seem to be slowing its aggressive spending ways and has the highest return on equity of any of the stocks that we cover here.

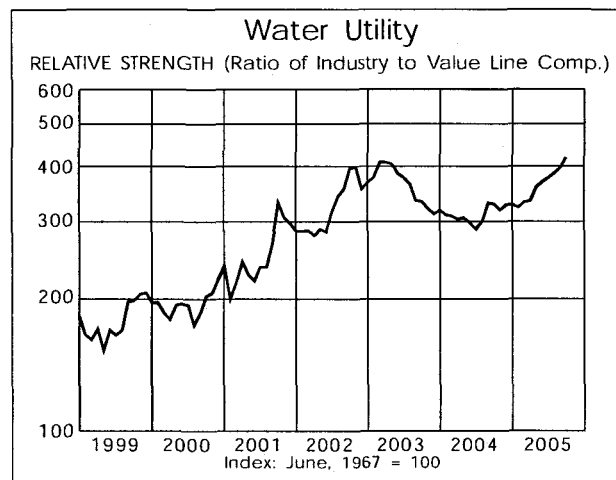
Investment Advice

Most investors will probably want to take a pass on the stocks in this industry. Typically market laggards, not one of the issues covered in the next few pages stands out for near-term or long-term capital gains potential. The limited financial resources of most of these companies, along with the capital-intensive nature of the industry, will probably limit any substantial growth out to late decade.

Those seeking to add an income component to their portfolio may find an attractive option here, though. Each of the stocks in this industry carries an above-average dividend yield, with *American States Water* and *California Water* offering the highest percentages. *California Water* offers some additional appeal, as it has a 2 (Above Average) Safety rank. As is always the case, we recommend that all potential investors take a more in depth look at the individual reports on the following pages before considering making any future financial commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry									
2001	2002	2003	2004	2005	2006				08-10
751.8	794.4	857.0	985.6	1250	1350	Revenues (\$mill)			1725
95.4	106.6	98.6	122.4	155	170	Net Profit (\$mill)			235
40.2%	38.8%	40.0%	39.4%	39.5%	39.5%	Income Tax Rate			39.5%
--	--	--	--	Nil	Nil	AFUDC % to Net Profit			Nil
52.4%	53.9%	51.2%	50.0%	52.0%	51.0%	Long-Term Debt Ratio			48.0%
47.2%	45.9%	48.6%	50.0%	48.0%	49.0%	Common Equity Ratio			52.0%
1840.7	1973.6	2296.4	2543.6	3000	3400	Total Capital (\$mill)			4100
2532.2	2751.1	3186.1	3532.5	4050	4250	Net Plant (\$mill)			5000
6.8%	7.0%	5.9%	6.7%	7.0%	7.5%	Return on Total Cap'l			7.0%
10.6%	11.2%	8.8%	10.7%	11.0%	11.0%	Return on Shr. Equity			11.5%
10.7%	11.2%	8.8%	10.7%	11.0%	11.0%	Return on Com Equity			11.5%
3.3%	3.8%	2.5%	4.6%	5.0%	5.0%	Retained to Com Eq			3.0%
69%	66%	72%	57%	60%	55%	All Div'ds to Net Prof			45%
22.6	21.5	26.0	25.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio			18.0
1.16	1.17	1.48	1.36			Relative P/E Ratio			1.20
3.1%	3.1%	2.8%	2.2%			Avg Ann'l Div'd Yield			3.4%



SOUTHWEST WATER

NDQ-SWWC

RECENT PRICE 13.72

P/E RATIO 29.8 (Trailing: 57.2 Median: 18.0)

RELATIVE P/E RATIO 1.67

DIV YLD 1.5%

VALUE LINE

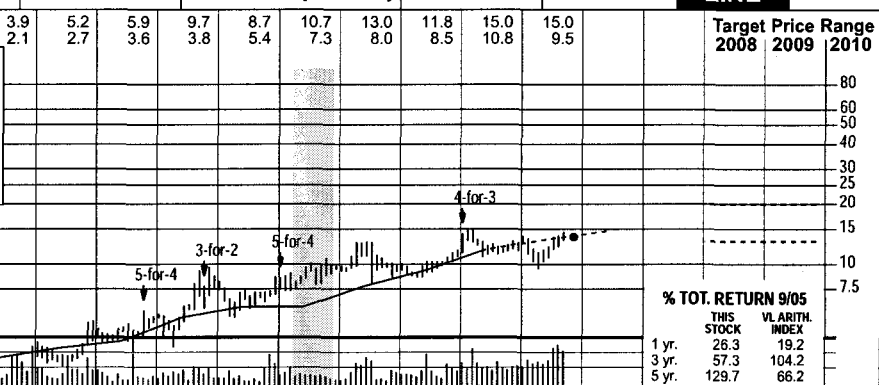
TIMELINESS 3 New 10/28/05
SAFETY 3 New 10/28/05
TECHNICAL 2 New 10/28/05
BETA .65 (1.00 = Market)

2008-10 PROJECTIONS
Price 20
Gain (+45%)
Ann'l Total Return 11%
High 20
Low 15

Insider Decisions
D J F M A M J J A
to Buy 2 1 0 0 1 2 0 0 0
Options 1 0 0 0 2 0 0 0 3
to Sell 1 1 0 0 1 0 0 0 1

Institutional Decisions
Q22004 Q22005 2Q2005
to Buy 30 32 28
to Sell 29 23 16
Hld's(000) 4781 4663 4804

LEGENDS
2.50 x Dividends p sh divided by Interest Rate
Relative Price Strength
6-for-5 split 12/96
5-for-4 split 10/98
3-for-2 split 10/99
5-for-4 split 1/01
4-for-3 split 1/04
Options: No
Shaded area indicates recession



1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
3.49	3.76	3.51	3.96	4.23	4.41	5.08	5.58	5.89	5.91	6.47	7.86	8.56	9.57	11.23	9.69	10.25	10.75	Revenues per sh	12.10
.46	.48	.29	.46	.40	.40	.46	.49	.56	.62	.69	.80	.91	.90	.96	.71	.90	1.05	"Cash Flow" per sh	1.55
.25	.23	.02	.20	.08	.09	.12	.16	.22	.27	.32	.40	.44	.41	.47	.24	.38	.50	Earnings per sh A	.87
.18	.19	.19	.19	.14	.08	.08	.09	.10	.10	.11	.14	.15	.16	.17	.19	.20	.22	Div'd Decl'd per sh B	.29
.42	.53	.41	.44	.63	.75	.88	.99	.78	.83	.55	.58	1.11	1.87	1.19	1.33	1.30	1.25	Cap'l Spending per sh	1.40
2.59	2.70	2.53	2.54	2.42	2.42	2.57	2.52	2.65	2.83	3.20	3.61	4.03	4.49	5.14	6.48	6.65	6.95	Book Value per sh D	9.05
10.82	10.93	11.05	11.24	11.40	11.55	11.18	11.86	12.05	12.21	12.50	13.33	13.50	13.66	15.40	19.40	19.50	20.00	Common Shs Outst'g C	21.50
12.8	14.2	NMF	14.5	35.8	22.3	14.6	16.6	16.9	17.2	19.6	17.0	19.8	24.8	21.2	51.6	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	21.0
.97	1.05	NMF	.88	2.11	1.46	.98	1.04	.97	.89	1.12	1.11	1.01	1.35	1.21	2.73			Relative P/E Ratio	1.40
5.8%	5.7%	5.5%	6.6%	4.7%	4.2%	4.7%	3.4%	2.7%	2.3%	1.8%	2.0%	1.7%	1.5%	1.7%	1.5%			Avg Ann'l Div'd Yield	1.5%
CAPITAL STRUCTURE as of 6/30/05																			
Total Debt \$79.9 mill. Due in 5 Yrs \$45.0 mill.																			
LT Debt \$78.6 mill. LT Interest \$7.5 mill. (Total interest coverage: 3.4x) (39% of Cap'l)																			
Leases, Uncapitalized: Annual rentals \$6.2 mill.																			
Pension Liability None																			
Pfd Stock \$500,000 Pfd Div'd \$24,000																			
Common Stock 19,730,082 shs. as of 8/8/05																			
MARKET CAP: \$275 million (Small Cap)																			
CURRENT POSITION 2003 2004 6/30/05																			
(\$MILL.)																			
Cash Assets 5.4 1.9 12.4																			
Receivables 19.8 23.9 25.5																			
Inventory (Avg Cst) 1.9 1.9 1.9																			
Other 10.2 17.6 15.3																			
Current Assets 35.4 45.3 53.2																			
Accts Payable 11.4 12.3 11.3																			
Debt Due 2.7 3.4 1.3																			
Other 17.3 20.0 20.3																			
Current Liab. 31.4 35.7 32.9																			

Receivables	19.8	23.9	25.5
Inventory (Avg Cst)	--	1.9	--
Other	10.2	17.6	15.3
Current Assets	35.4	45.3	53.2
Accts Payable	11.4	12.3	11.3
Debt Due	2.7	3.4	1.3
Other	17.3	20.0	20.3
Current Liab.	31.4	35.7	32.9

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	9.0%	11.0%	3.0%
"Cash Flow"	7.5%	6.5%	10.5%
Earnings	11.5%	7.0%	15.0%
Dividends	2.0%	10.5%	9.0%
Book Value	8.0%	13.0%	9.0%

Cal-endar	QUARTERLY REVENUES (\$ mil.)				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2002	28.2	32.7	34.6	35.3	130.8
2003	36.1	41.5	51.4	44.0	173.0
2004	39.8	45.7	55.0	47.5	188.0
2005	46.9	51.3	56.0	45.8	200
2006	50.0	55.0	60.0	50.0	215

Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2002	.04	.11	.13	.13	.41
2003	d.01	.14	.22	.12	.47
2004	--	.14	.12	d.02	.24
2005	d.01	.15	.16	.08	.38
2006	.07	.15	.18	.10	.50

Cal-endar	QUARTERLY DIVIDENDS PAID ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2001	.036	.036	.036	.036	.14
2002	.038	.038	.038	.038	.15
2003	.042	.042	.042	.046	.17
2004	.046	.046	.046	.05	.19
2005	.05	.05	.05	.05	.20

BUSINESS: Southwest Water Company provides a broad range of services including water production, treatment and distribution; wastewater collection and treatment; utility billing and collection; utility infrastructure construction management; and public works services. It operates out of two groups, Utility (37% of 2004 revenues) and Services (63%). Utility owns and manages rate-regulated

This report marks the debut of Southwest Water Company in The Value Line Investment Survey. The company provides both regulated and nonregulated water service in several states. It also provides utility submetering to over two million customers in 36 states. **Southwest's second-quarter revenues were the highest in the company's history.** During the period, revenues rose 12% and share earnings gained a penny. The solid showing was fueled by last year's acquisition of Monarch Utilities and increased project work. This was especially impressive, as Southwest achieved the results despite heavy rainfall in the company's main operating region, California. Looking forward, we expect a steady stream of rate filings to help support top-line advances over the next two years. **The company's largest utility subsidiary in California, Suburban Water, should file for a rate increase soon.** The exact amount being asked for is still unknown, but this looks to be the first major case filed before the new, and possibly more Southwest-friendly California Public Utilities Commission. If the results

of this filing are favorable, we expect the subsidiary to become a primary growth driver behind earnings in 2006 and beyond. **Proceeds from the Master Tek divestiture have been put to good use.** Management described the growth outlook for Master Tek, a billing and collection company for multi-family residential properties, as being lackluster. The company was able to sell the subsidiary in June for approximately \$10 million, and most likely used part of the proceeds to acquire the Shelby County, Alabama wastewater system in September. The Alabama systems are non-regulated, which means higher margins for the company. As an added bonus, Southwest was able to secure 11 years of automatic 8% rate increases in the region. We expect the acquisition to start making a positive impact on company profits by early 2006. **Shares of Southwest Water Company are ranked average for year-ahead performance.** However, our projections show total-return potential for the years out to 2008-2010 to be fairly limited.

Praneeth Satish
October 28, 2005

ATTACHMENT B

The Natural Gas Distribution Industry is ranked near the bottom of the *Value Line* universe for **Timeliness: 95 of (98)**. The key features of gas utility stocks are their safety and better-than-average dividend yields, rather than price performance or appreciation potential. It should be noted that the distribution industry is in the middle of its most profitable quarters, thanks to the winter heating season.

Regulated Utilities

Local distribution companies (LDCs) are natural gas utilities that are regulated by both individual state and/or federal regulatory agencies. They are considered natural monopolies since it is more cost-effective to build one pipeline system to serve a region, versus multiple distributors competing over the same location. Since these companies are essentially able to operate as monopolies, the government sets allowable rates of return each company can earn, typically between 10% and 12%. This is one of the contributing factors to the limited volatility in share prices for these distributors. However, should earnings be less than the permitted rate, the company is able to petition regulators for higher rates. Likewise, if it is determined that a distributor is earning in excess of its allowable rates, it may be subject to a rate review. In addition, some companies now have weather plans in place to protect against abnormal temperatures. Two such companies are *WGL Holdings* in its Maryland service territory, and *Southwest Gas*. The Maryland weather-normalization program protects the company against revenue variations due to changes in usage, caused by weather deviations from the norm, along with conservation among customers. *Southwest* is awaiting a rate case decision in Arizona, which would mitigate the impact of weather on earnings and allow the company to recover higher costs. Programs such as these create a more consistent year-over-year earnings stream.

Nonregulated Activities

Industry deregulation has allowed gas utilities to expand their businesses beyond their normal distribution operations. The companies that expand into those arenas enjoy the opportunity to enter businesses with no restrictions on return on equity. Some activities include retail energy marketing, energy trading, and oil and gas

INDUSTRY TIMELINESS: 95 (of 98)

exploration and production. In fact, nearly all of the companies in this industry have at least some exposure to the nonregulated segment, with many looking to further expand operations here. One such company is *South Jersey* at its Marina Energy unit. The division will be expanding its Atlantic City thermal electric plant to support the scheduled 500,000-square-foot expansion at the Borgata Hotel casino & Spa.

Natural Gas Prices

Natural gas prices reached lofty levels following the hurricanes that hit the Gulf Coast. Although they came down somewhat, they were still high compared to prior years. Prices have recently returned to these high levels, most likely because of cold weather in the Northeast. Typically, those companies that are involved in nonregulated activities stand to benefit the most from higher prices. The regulated utilities continue to earn their allowable rate of return, but the added expenses are eventually passed on to customers in the form of higher utility bills. These added charges then result in a higher level of bad debt expense, since some low-income customers are unable to afford these bills. Sharply rising bills can also result in the loss of customers to other fuels. If the winter turns out to be colder than normal, gas volume use will likely increase. However, due to high gas prices, customers may well begin to conserve to cut down on their utility bills, thereby lowering profits.

Investment Advice

The stocks in this industry are generally suitable for income-oriented investors, and offer good stock price stability. Risk-adverse investors still may want to primarily focus on those companies that derive most of their earnings from regulated activities. As companies have begun to shift their operations toward nonregulated businesses, the potential for capital appreciation is increased, but so is the risk for capital losses. Note that especially high dividend yields for stocks in this sector can mean growth opportunities are constrained. Also, as companies expand into nonregulated activities they may be less willing to raise the dividend payout, instead using these funds to finance capital expenditures.

Evan I. Blatter

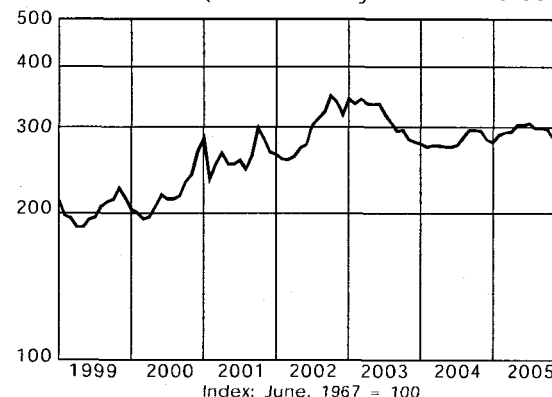
Composite Statistics: Natural Gas (Distribution)

2001	2002	2003	2004	2005	2006		08-10
27611	22947	29981	33220	35000	37950	Revenues (\$mill)	42000
1070.4	1231.5	1395.3	1735.9	1750	1850	Net Profit (\$mill)	2100
39.7%	35.3%	37.4%	35.6%	36.0%	36.0%	Income Tax Rate	36.0%
3.9%	5.4%	4.7%	5.2%	5.0%	4.9%	Net Profit Margin	5.0%
57.4%	57.8%	55.9%	53.2%	53.0%	53.0%	Long-Term Debt Ratio	52.5%
41.5%	41.4%	43.7%	45.7%	45.0%	45.0%	Common Equity Ratio	45.5%
24342	24907	28436	31268	33500	35400	Total Capital (\$mill)	39450
24444	25590	31732	32053	33500	35000	Net Plant (\$mill)	40000
6.1%	6.6%	6.4%	7.1%	7.0%	7.0%	Return on Total Cap'l	7.0%
10.3%	11.7%	11.1%	11.9%	12.0%	12.0%	Return on Shr. Equity	12.5%
10.5%	11.8%	11.2%	12.0%	12.0%	12.0%	Return on Com Equity	12.5%
2.5%	3.9%	4.1%	5.5%	5.5%	5.5%	Retained to Com Eq	5.5%
76%	68%	64%	55%	60%	60%	All Div'ds to Net Prof	60%
16.8	14.8	14.1	13.6			Avg Ann'l P/E Ratio	13.0
.86	.81	.80	.72			Relative P/E Ratio	.87
4.5%	4.5%	4.5%	4.0%			Avg Ann'l Div'd Yield	4.6%
244%	280%	314%	308%	315%	330%	Fixed Charge Coverage	375%

Bold figures are
Value Line
estimates

Natural Gas (Distribution)

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)

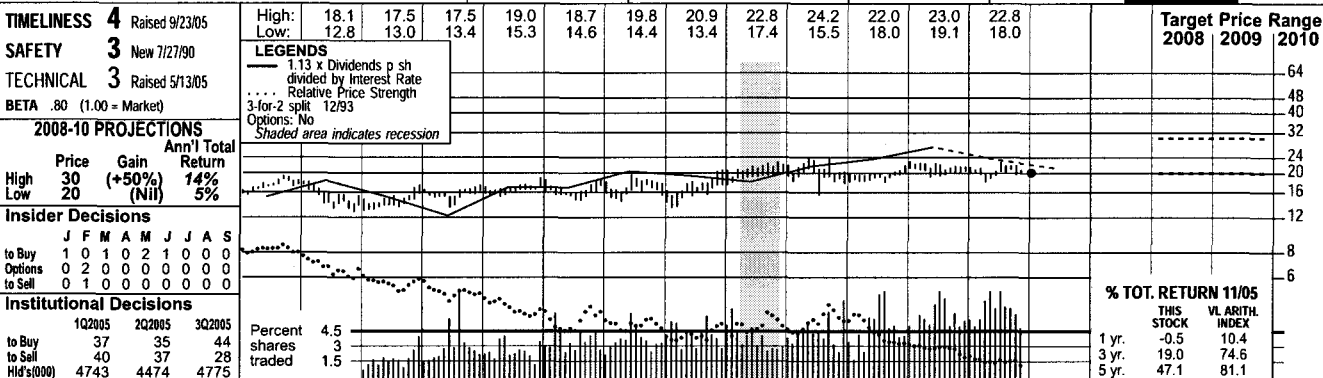


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CASCADE NAT'L GAS NYSE-CGC

RECENT PRICE **20.20** P/E RATIO **22.7** (Trailing: 24.6) (Median: 18.0) RELATIVE P/E RATIO **1.23** DIV'D YLD **4.8%** VALUE LINE



1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
26.87	24.45	23.27	20.03	21.88	21.59	19.98	11.84	17.85	17.17	18.89	21.90	30.40	29.06	27.20	28.23	28.60	29.80	Revenues per sh ^A	40.00
2.47	2.36	2.29	1.66	2.04	1.71	2.07	1.22	1.92	2.06	2.40	2.60	2.72	2.48	2.25	2.63	2.30	2.65	"Cash Flow" per sh	3.60
1.29	1.26	1.14	.63	1.05	.60	.80	.39	.93	.84	1.24	1.39	1.47	1.13	.87	1.19	.82	.95	Earnings per sh ^{AB}	1.25
.85	.87	.90	.93	.94	.96	.96	.72	.96	.96	.96	.96	.96	.96	.96	.96	.96	.96	Div'ds Decl'd per sh ^C	.98
1.99	2.50	2.97	4.64	3.85	3.06	4.12	2.42	2.66	2.32	1.81	1.65	2.16	1.91	2.56	3.50	2.50	3.05	Cap'l Spending per sh	4.40
7.96	8.33	8.63	9.09	9.96	9.81	9.76	10.09	10.16	10.07	10.36	10.79	11.01	10.34	10.11	10.52	10.45	10.95	Book Value per sh ^D	15.30
6.49	6.56	6.63	7.61	8.57	8.91	9.14	10.79	10.97	11.05	11.05	11.05	11.05	11.05	11.13	11.27	11.41	11.40	Common Shs Outst'g ^E	12.00
8.6	8.9	12.2	23.7	16.6	25.7	18.2	40.0	17.6	19.4	13.7	11.7	13.4	18.2	22.0	17.5	25.1		Avg Ann'l P/E Ratio	20.0
.65	.66	.78	1.44	.98	1.69	1.22	2.51	1.01	1.01	.78	.76	.69	.99	1.25	.92	1.32		Relative P/E Ratio	1.35
7.7%	7.8%	6.4%	6.2%	5.4%	6.2%	6.6%	4.6%	5.9%	5.9%	5.7%	5.9%	4.9%	4.7%	5.0%	4.6%	4.7%		Avg Ann'l Div'd Yield	3.9%

CAPITAL STRUCTURE as of 6/30/05

Total Debt \$180.9 mill. Due in 5 Yrs \$55.0 mill.
 LT Debt \$158.9 mill. LT Interest \$10.0 mill.
 (LT interest earned: 2.8x; total interest coverage: 2.7x)

Pension Assets-9/04 \$51.3 mill. Oblig. \$65.5 mill.

Pfd Stock None

Common Stock 11,413,000 shs.
 as of 9/30/05
 MARKET CAP: \$225 million (Small Cap)

CURRENT POSITION^A 2003 2004 6/30/05 (\$MILL.)

Cash Assets	7.5	.5	.7
Other	33.1	65.9	64.8
Current Assets	40.6	66.4	65.5
Accts Payable	10.5	12.9	11.0
Debt Due	25.8	47.5	22.0
Other	19.7	38.6	38.8
Current Liab.	56.0	99.0	71.8
Fix. Chg. Cov.	213%	269%	260%

ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '02-'04 to '08-'10

Revenues	3.0%	9.5%	6.0%
"Cash Flow"	3.0%	3.0%	6.5%
Earnings	3.5%	1.0%	3.0%
Dividends	5%	5%	5%
Book Value	5%	7.0%	7.0%

QUARTERLY REVENUES (\$ mill.)^A

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	102.8	122.3	56.8	39.1	321.0
2003	100.5	109.3	53.8	39.2	302.8
2004	104.9	119.4	52.1	41.7	318.1
2005	104.6	117.7	56.3	47.9	326.5
2006	107	125	60.0	48.0	340

EARNINGS PER SHARE^{A B}

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	.56	.86	d.06	d.23	1.13
2003	.60	.67	d.18	d.22	.87
2004	.72	.79	d.05	d.26	1.19
2005	.59	.65	d.10	d.32	.82
2006	.62	.68	d.09	d.26	.95

QUARTERLY DIVIDENDS PAID^C

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.24	.24	.24	.24	.96
2002	.24	.24	.24	.24	.96
2003	.24	.24	.24	.24	.96
2004	.24	.24	.24	.24	.96
2005	.24	.24	.24	.24	.96

BUSINESS: Cascade Natural Gas Corporation distributes natural gas to around 227,000 customers in Washington and Oregon. In 2004, total throughput was 113.4 billion cu. ft. Core customers: residential, commercial, firm industrial, interruptible (69% of oper. margin, 23% of gas deliveries); non-core: industrial, transportation service (31%, 77%). Serves pulp & paper, plywood, chem. fertiliz-

We believe that Cascade Natural Gas' bottom line will recover some in fiscal 2006, which began October 1st. This should come about partly by further expansion of the customer base, an adjustment in the employee benefits plan, and savings from a consolidated call center for customers. The company should also be helped by the absence of costs stemming from the transition to a new executive team, and staff reductions (which, combined, amounted to \$0.13 a share last year). But demand from residential and commercial customers may be held back, to a certain extent, by conservation efforts caused by persistently high natural gas prices and improved energy efficiency in buildings and appliances. Too, it seems that margins from the gas management services business will continue to suffer from competition from energy marketers, a segment that has made a comeback since the demise of Enron. All things considered, Cascade's earnings per share may well advance to \$0.95 in fiscal 2006.

We remain positive about the company's 2008-2010 prospects. Generally favorable economic conditions in Washing-

ton and Oregon helped annual account hookups to rise at a steady rate in the past, and it appears that this trend will continue. Also, given the environmental advantages of natural gas and assuming that prices for this fuel source don't get out of reach for the mainstream, a significant portion of new customers may still come from conversions. These factors ought to enable annual bottom-line gains to be in the upper-single-digit range over the coming 3- to 5-year period.

Cascade shares, ranked 4 (Below Average) for Timeliness, offer a decent dividend yield. But additional increases in the payout will likely be slow in coming, as cash flows are used to meet the requirements of a growing customer base. Another factor to consider is the sensitivity of earnings to changes in service-area temperatures, given the absence of weather-normalization adjustment mechanisms. (Management is seeking a rate design that would diminish the temperature impact, but it's unclear, at this juncture, when regulators would approve such a measure.)

Frederick L. Harris, III December 16, 2005

KEYSPAN CORP. NYSE-KSE

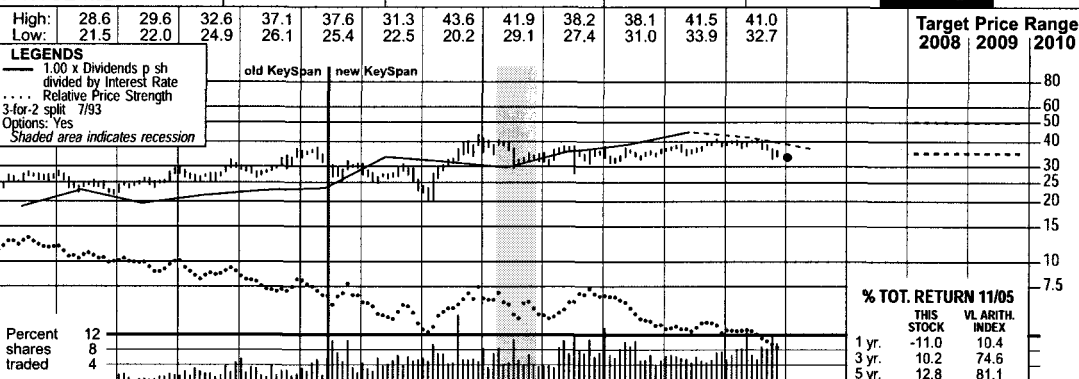
RECENT PRICE **33.37** P/E RATIO **13.5** (Trailing: 13.0 Median: 14.0) RELATIVE P/E RATIO **0.73** DIV YLD **5.5%** VALUE LINE

TIMELINESS 4 Lowered 12/10/04
SAFETY 2 Lowered 3/26/99
TECHNICAL 4 Lowered 12/2/05
BETA .85 (1.00 = Market)

2008-10 PROJECTIONS
 Price 50 Gain (+50%)
 High 50 Low 35
 Ann'l Total Return 15%
 7%

Insider Decisions
 J F M A M J J A S
 to Buy 0 0 0 0 0 0 0 0 0
 Options 0 0 4 0 5 1 2 0 0
 to Sell 0 0 4 0 6 1 2 0 0

Institutional Decisions
 1Q2005 2Q2005 3Q2005
 to Buy 138 196 170
 to Sell 135 85 118
 Hld's(000) 81446 90574 90849



1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
26.71	26.64	23.43	24.74	25.99	28.13	24.93	28.72	29.12	13.20	22.07	37.56	47.57	41.92	43.31	41.35	40.10	41.45	Revenues per sh ^A	48.00
2.64	2.62	2.38	3.03	3.04	3.29	3.35	3.54	4.27	.45	3.57	4.51	5.72	6.36	6.22	5.88	4.65	4.80	"Cash Flow" per sh	5.60
1.68	1.62	1.45	1.35	1.73	1.85	1.90	1.96	2.12	d13.4	1.62	2.10	1.72	2.75	2.62	2.44	2.45	2.50	Earnings per sh ^B	3.10
1.19	1.23	1.27	1.29	1.32	1.35	1.39	1.42	1.46	1.50	1.78	1.78	1.78	1.78	1.78	1.79	1.82	1.82	Div'ds Decl'd per sh ^C	2.10
4.30	3.51	3.44	3.95	4.37	4.15	4.36	6.04	5.60	5.19	5.42	4.64	7.60	7.96	6.34	4.89	3.60	3.60	Cap'l Spending per sh	3.80
13.36	13.68	14.37	14.55	15.54	16.27	16.94	18.17	19.09	23.18	20.28	20.65	20.73	20.67	22.94	24.22	25.40	25.45	Book Value per sh ^D	29.50
36.29	37.30	42.28	43.45	46.38	47.59	48.79	49.86	50.77	130.42	133.87	136.36	139.43	142.42	159.66	160.82	174.50	175.00	Common Shs Outst'g ^E	177.00
10.1	11.9	13.1	15.1	14.3	13.7	12.7	13.7	13.8	--	16.8	14.8	20.8	12.7	13.1	15.3	15.3	15.3	Avg Ann'l P/E Ratio	13.5
.76	.88	.84	.92	.84	.90	.85	.86	.80	--	.96	.96	1.07	.69	.75	.82	.82	.82	Relative P/E Ratio	.90
7.0%	6.4%	6.7%	6.4%	5.3%	5.3%	5.8%	5.3%	5.0%	4.8%	6.5%	5.7%	5.0%	5.1%	5.2%	4.8%	4.8%	4.8%	Avg Ann'l Div'd Yield	5.0%

CAPITAL STRUCTURE as of 9/30/05
 Total Debt \$4.236 bill. Due in 5 Yrs \$2.5 bill.
 LT Debt \$3.915 bill. LT Interest \$280 mill.
 (Total interest coverage: 3.8x)

Pension Assets-12/04 \$1.9 bill. **Oblig.** \$2.3 bill.

Pfd Stock None **Pfd Div'd** Nil

Common Stock 174,361,293 shs.
 as of 10/12/05
MARKET CAP: \$5.8 billion (Large Cap)

CURRENT POSITION 2003 2004 9/30/05
 (\$MILL.)

Cash Assets	205.8	922.0	84.0
Other	2181.1	2156.6	2869.4
Current Assets	2386.9	3078.6	2200.4
Accts Payable	1141.6	906.7	756.3
Debt Due	483.4	928.3	321.5
Other	223.8	447.3	631.1
Current Liab.	1848.8	2282.3	1708.9
Fix. Chg. Cov.	315%	257%	NMF

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 of change (per sh)
Revenues	6.0%	13.5%	3.0%
"Cash Flow"	8.0%	17.0%	-5%
Earnings	4.5%	21.0%	1.0%
Dividends	3.0%	4.0%	2.0%
Book Value	4.0%	1.5%	5.0%

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	1871	1215	1076	1807	5970.7
2003	2512	1408	1131	1862	6915.2
2004	2595	1365	1050	1638	6650.5
2005	2480	1342	1303	1875	7000
2006	2700	1425	1200	1925	7250

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	1.51	.20	.02	1.02	2.75
2003	1.53	d.05	.07	1.07	2.62
2004	1.39	.13	.03	.88	2.43
2005	1.43	.11	.13	.78	2.45
2006	1.47	.10	.05	.88	2.50

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.445	.445	.445	.445	1.78
2002	.445	.445	.445	.445	1.78
2003	.445	.445	.445	.445	1.78
2004	.445	.445	.445	.445	1.78
2005	.455	.455	.455	.455	1.78

BUSINESS: KeySpan Corp. is a holding company created 5/98, via the merger of KeySpan Energy (formerly Brooklyn Union) and Long Island Lighting. Acq. Eastern Enterprises 11/00, making KeySpan the largest gas distributor in the Northeast, serving most of New York City and nearby Long Island, and parts of New England. Has 2.5 mill. gas meters in one-family homes and apartments. Also gen-

KeySpan's third-quarter earnings came in better than expected. (Our estimate was a loss of a penny a share.) Electric services profits jumped 34% as a result of weather that was 50% warmer than normal, fuel price spreads, and good online performance by the generating plants. That more than offset increased losses in the gas distribution business (which usually loses money in the summer), due in part to higher uncollectible debts. Finally, interest costs declined 24% from the prior-year period, thanks to an 11% reduction in outstanding debt since the end of 2004 and debt refinancing. We think that uncollectible debts will remain above recent levels through next winter.

The earnings outlook for 2006 is mixed. On the plus side, the company will probably hook up enough new gas customers in 2005 to raise gross profits by around \$40 million in 2006. And Massachusetts has approved a regulatory change that should permit KeySpan to recover more uncollectible debts. But gas customers will probably pay 30% to 40% more for heat this winter, an unprecedented jump that could result in very high bad debts and

noticeable conservation. Electric service earnings could suffer in 2006 if a planned 10% generating capacity increase in New York City actually comes on line. New York regulators, however, will probably raise the amount of power that must be generated in the City, mitigating the effects of new capacity. Finally, the sideline energy services business should lose a bit less or even make a little money.

Longer term, share net should rise at a modest pace. KeySpan has over 500,000 prospective gas customers near its mains that could be hooked up relatively easily. New York City's power demands should grow steadily and yield more profits, despite some possible excess capacity in 2006. And, having reduced its debt-to-capital ratio to around 47%, the company could invest several hundred million dollars in acquisitions without endangering its credit ratings.

These untimely shares offer decent risk-adjusted total return potential. KSE's dividend yield is above the industry average, and the company has some growth prospects.

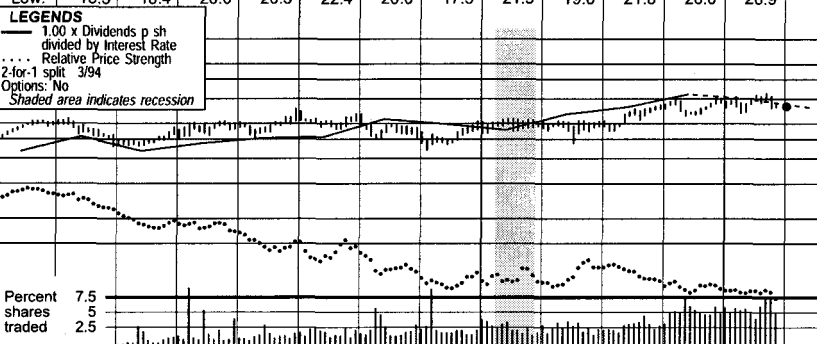
Sigourney B. Romaine December 16, 2005

(A) Data for former KeySpan Energy through '97 (years ended 9/30); new KeySpan Corp. from '98 on a calendar fiscal year. (B) Diluted shs. Excl. nonrecur. gains (charges): '90, (\$0.19); '96, \$0.52; '97, \$0.16; '03, (\$0.23); '04, (\$0.40). Excl. gain (loss) discount ops.: '00, (\$0.02); '01, (\$0.14); '02, (\$0.14); '03, \$0.01; '04, \$0.81. Next egs. report due late Jan. (C) \$18.31/sh. (E) In millions, adjusted for split. Divs historically paid early Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available. (D) Includes def. charges. At 12/31/04: '04, \$0.81. Next egs. report due late Jan. (C) \$18.31/sh. (E) In millions, adjusted for split.

Company's Financial Strength	8++
Stock's Price Stability	95
Price Growth Persistence	55
Earnings Predictability	20

To subscribe call 1-800-833-0046.

RECENT PRICE	29.32	P/E RATIO	14.7 (Trailing: 15.4 Median: 15.0)	RELATIVE P/E RATIO	0.80	DIV'D YLD	4.7%	VALUE LINE
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[illegible]

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
31.57	30.21	28.10	26.83	32.33	33.43	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	76.05	85.10	Revenues per sh	116.30
2.47	2.13	2.37	2.32	2.81	2.65	2.55	3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	3.15	3.35	"Cash Flow" per sh	4.15
1.45	1.08	1.28	1.17	1.61	1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.00	Earnings per sh ^A	2.30
1.15	1.18	1.20	1.20	1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.39	Div'ds Decl'd per sh ^C	1.45
1.82	1.87	2.46	2.87	2.62	2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.85	3.00	Cap'l Spending per sh	3.75
11.74	11.75	11.83	11.79	12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.45	19.00	Book Value per sh ^D	27.35
15.59	15.59	15.59	15.59	15.59	15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.00	21.50	Common Shs Outst'g ^E	21.50
10.3	14.6	12.5	15.8	13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2		Avg Ann'l P/E Ratio	15.5
.78	1.08	.80	.96	.80	1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.82	.85		Relative P/E Ratio	1.05
7.7%	7.5%	7.5%	6.5%	5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%		Avg Ann'l Div'd Yield	4.1%

CAPITAL STRUCTURE as of 6/30/05													431.9	544.8	602.8	547.2	491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	1830	Revenues (\$mill) ^A	2500			
Total Debt \$427.9 mill. Due in 5 Yrs \$175.0 mill.													20.9	32.8	32.5	27.9	26.9	26.0	30.5	22.4	34.6	36.1	40.1	45.0	Net Profit (\$mill)	50.0			
LT Debt \$340.4 mill. LT Interest \$25.0 mill.													32.1%	35.9%	36.1%	35.6%	35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	35.0%	Income Tax Rate	35.0%			
(Total interest coverage: 2.9x)													4.8%	6.0%	5.4%	5.1%	5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	Net Profit Margin	2.0%			
													40.2%	42.5%	38.0%	40.9%	41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	48.0%	49.0%	Long-Term Debt Ratio	51.0%			
Leases, Uncapitalized Annual rentals \$1.6 mill.													59.3%	57.1%	61.6%	58.6%	57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	52.0%	51.0%	Common Equity Ratio	49.0%			
Pension Assets-9/04 \$259.5 mill.													383.5	422.2	406.8	438.0	488.6	519.2	574.1	546.6	605.0	737.4	710	800	Total Capital (\$mill)	1200			
Oblig. \$252.6 mill.													434.3	452.2	467.6	490.6	519.4	575.4	594.2	594.4	621.2	646.9	680	705	Net Plant (\$mill)	950			
Pfd Stock \$1.1 mill. Pfd Div'd \$0.6 mill.													7.1%	9.4%	9.7%	8.1%	7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.0%	7.0%	Return on Total Cap'l	5.5%			
Common Stock 21,143,581 shs.													9.1%	13.5%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	11.0%	11.0%	Return on Shr. Equity	8.5%			
as of 7/29/05													9.2%	13.6%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	11.0%	11.0%	Return on Com Equity	8.5%			
MARKET CAP: \$625 million (Small Cap)													4.4%	4.5%	3.9%	1.8%	1.0%	.2%	1.8%	NMF	3.1%	2.7%	3.0%	3.5%	Retained to Com Eq	3.0%			
CURRENT POSITION													2003	2004	6/30/05	96%	67%	70%	83%	89%	98%	83%	113%	74%	73%	72%	66%	All Div'ds to Net Prof	62%

(SMILL)			
Cash Assets	7.3	13.9	4.8
Other	280.6	323.7	275.8
Current Assets	287.9	337.6	280.6
<hr/>			
Accts Payable	66.0	68.4	89.4
Debt Due	218.2	96.5	87.5
Other	82.1	97.7	82.3
Current Liab.	366.3	262.6	259.2
Fix. Chg. Cov.	295%	279%	280%
<hr/>			
ANNUAL RATES	Past	Past	Est'd '02-'04
of change (per sh)	10 Yrs.	5 Yrs.	to '08-'10
Revenues	5.0%	11.0%	14.5%
"Cash Flow"	1.0%	-1.0%	6.5%
Earnings	1.5%	-5%	6.0%
Dividends	1.0%	.5%	1.5%
Book Value	2.5%	1.5%	9.5%

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri (population, 2 million), including the city of St. Louis, St. Louis County, and parts of 8 other counties. Has more than 630,000 customers. Purchased SM&P for \$43 million (1/02). Therms sold and transported in fiscal '04: 1.12 mill. Revenue mix for regulated operations: residential

Laclede Group's core natural gas distribution unit, Laclede Gas, could have a rough time in fiscal 2006 (which ends September 30th). Volumes may be held in check by conservation efforts spurred by persistently high natural gas prices. Furthermore, operating expenses should continue to rise, reflecting increased rates charged by suppliers and higher off-system gas costs. But performance ought to be aided partly by a hedging program intended to limit gas-price volatility, and a weather-mitigation mechanism that has been in effect since 2002. Too, a rate hike was recently approved by the Missouri Public Service Commission, although less than what management requested.

The other segments stand to deliver decent results this year, though SM&P Utility Resources, the unregulated unit specializing in locating and marking services for underground facilities, should benefit from additional business in both new and existing markets, plus improvements in operational efficiency. Meanwhile, we expect earnings for Laclede Energy Resources, the non-utility gas

marketing segment, to be boosted by a steady rise in interstate pipeline wholesale transactions. Nevertheless, consolidated share net may advance only 5%, to \$2.00, in fiscal 2006.

The company's prospects out to the end of this decade are unspectacular, too, given that Laclede Gas is operating in a mature market. Indeed, the customer base has been expanding roughly 1% annually, which means that internal growth for this business will remain moderate, at best. As such, any substantial gains will have to come from the unregulated units or from acquisitions, scenarios we don't see happening anytime soon. That said, annual bottom-line increases ought to be in the mid-single-digit range over the 2008-2010 period.

Long-term total-return potential for the equity is limited, given that it is already trading near our 3- to 5-year Target Price Range, and assuming moderate increases in the dividend. Meanwhile, these good-yielding shares are ranked to underperform the broader market averages for the next six to 12 months.

Frederick L. Harris, III December 16, 2005

<p>(A) Fiscal year ends Sept. 30th.</p> <p>(B) Based on average shares outstanding thru 1997, then diluted. Next earnings report due late Jan.</p>	<p>(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.</p> <p>(D) Incl. deferred charges. In '04: \$206.6 mill.,</p>	<p>\$9.85/sh.</p> <p>(E) In millions. Adjusted for stock split.</p> <p>(F) Qtlly. egs. may not sum due to change in shares outstanding.</p>	<p>Company's Financial Strength B+</p> <p>Stock's Price Stability 95</p> <p>Price Growth Persistence 50</p> <p>Earnings Predictability 65</p>
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RECENT PRICE	34.40	P/E RATIO	15.6 (Trailing: 16.3 Median: 14.0)	RELATIVE P/E RATIO	0.85	DIV'D YLD	4.0%	VALUE LINE
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TIMELINESS	4	Lowered 9/16/05	High:	24.3	22.8	25.9	31.4	30.8	27.9	27.5	26.8	30.7	31.3	34.1	39.6																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
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1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10	
15.22	17.02	16.74	14.10	18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	32.45	33.90	Revenues per sh	37.95	
2.85	3.22	2.57	3.25	3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.35	4.50	"Cash Flow" per sh	5.15	
1.58	1.62	.67	.74	1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.15	2.25	Earnings per sh ^A	2.75	
1.07	1.10	1.13	1.15	1.17	1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.34	1.39	Div'ds Decl'd per sh ^B	1.64	
3.36	3.85	3.58	3.73	3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.60	3.35	Cap'l Spending per sh	4.00	
12.04	12.61	12.23	12.41	13.08	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.45	22.50	Book Value per sh	25.50	
17.14	17.41	17.68	19.46	19.77	20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.75	28.00	Common Shs Outst'g ^C	29.00	
9.8	10.2	28.1	27.0	12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	Bold figures are Value Line estimates	Avg Ann'l P/E Ratio Relative P/E Ratio Avg Ann'l Div'd Yield	14.5 .95 4.1%		
.74	.76	1.79	1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.89					
6.9%	6.7%	5.9%	5.7%	5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%					
CAPITAL STRUCTURE as of 9/30/05						356.3	380.3	361.8	416.7	455.8	532.1	650.3	641.4	611.3	707.6	900	950	Revenues (\$'mill)	1100	
Total Debt \$602.0 mill. Due in 5 Yrs \$160.0 mill.						38.1	46.8	43.1	27.3	44.9	47.8	50.2	43.8	46.0	50.6	59.5	63.0	Net Profit (\$'mill)	80.0	
LT Debt \$521.5 mill. LT Interest \$33.0 mill.						36.8%	36.9%	32.9%	31.0%	35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	35.0%	35.0%	Income Tax Rate	35.0%	
Incl. \$5.6 mill. 7¼% debts. due 3/1/12, each conv. into 50.25 com. shs. at \$19.90.						10.7%	12.3%	11.9%	6.6%	9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.6%	6.6%	Net Profit Margin	7.3%	
(Total interest coverage: 3.2x)						43.5%	41.4%	46.0%	45.0%	46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	45.5%	45.0%	Long-Term Debt Ratio	46.0%	
						50.3%	52.8%	49.0%	50.6%	49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	54.5%	55.0%	Common Equity Ratio	54.0%	
Pension Assets-12/04 \$168.3 mill. Oblig. \$205.4 mill.						643.3	657.4	748.0	815.6	861.5	887.8	880.5	937.3	1006.6	1052.5	1100	1150	Total Capital (\$'mill)	1360	
Pfd Stock None						697.2	745.3	827.5	894.7	895.9	934.0	965.0	995.6	1205.9	1318.4	1350	1400	Net Plant (\$'mill)	1625	
						7.7%	8.9%	7.4%	5.0%	6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	7.0%	7.0%	Return on Total Cap'l	8.0%	
Common Stock 27,549,733 shs. as of 10/31/05						10.5%	12.1%	10.7%	6.1%	9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	10.0%	10.5%	Return on Shr. Equity	10.5%	
MARKET CAP \$950 million (Small Cap)						10.9%	12.7%	11.0%	6.0%	9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	10.0%	10.5%	Return on Com Equity	10.5%	
						3.0%	5.0%	3.6%	NMF	2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	4.5%	4.5%	Retained to Corn Eq	4.5%	
CURRENT POSITION				2003	2004	9/30/05	74%	63%	70%	118%	74%	70%	67%	79%	72%	69%	62%	62%	All Div'ds to Net Prof	60%

Cash Assets	4.7	5.2	3.4	BUSINESS: Northwest Natural Gas Co. (doing business as NW Natural) distributes natural gas at retail to 90 communities, 596,000 customers, in Oregon (96% of revs.) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.4 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system to bring gas to market. Owns local underground storage. Rev. breakdown: resident/1 comm/1, 84%; ind., 10%; transport and other, 6%. Employs 1,291. Has abt 9,200 com. shrhldrs. Insiders own about 1% of com. (4/05 proxy). CEO: Mark S. Dodson. Inc.: OR. Addr: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Web: www.nwnatural.com
Other	194.8	231.9	201.8	
Current Assets	199.5	237.1	205.2	
Accts Payable	86.0	102.5	81.7	
Debt Due	85.2	117.5	80.5	
Other	43.2	47.3	56.3	
Current Liab.	214.4	267.3	238.5	

Fx. Chg. Cov.		280%	316%	NMF
ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04	
of change (per sh)				
Revenues	4.0%	8.0%	7.5%	
"Cash Flow"	1.0%	1.5%	5.0%	
Earnings	2.5%	3.0%	8.0%	
Dividends	1.0%	1.0%	4.5%	
Book Value	4.0%	3.5%	4.5%	

Calendar	QUARTERLY REVENUES (\$ mill.)					Full Year
	Mar. 31	Jun 30	Sep 30	Dec 31		
2002	278.6	101.9	78.7	182.2		641.4
2003	206.5	117.5	69.5	217.8		611.3
2004	254.5	109.7	81.4	262.0		707.6
2005	308.7	153.7	106.7	330.9		900
2006	350.	175.	125.	300.		950

Calendar	EARNINGS PER SHARE ^A					Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	Dec.31	
2002	1.32	1.23	1.26	.69	1.62	
2003	1.01	.17	1.25	.83	1.76	
2004	1.24	1.03	1.30	.95	1.86	
2005	1.43	.04	1.31	.99	2.15	
2006	1.50	.07	1.31	1.04	2.75	

2000	1.30	.02	0.37	1.04	2.60
Cal- endar	QUARTERLY DIVIDENDS PAID ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2001	.31	.31	.31	.315	1.25
2002	.315	.315	.315	.315	1.26
2003	.315	.315	.315	.325	1.27
2004	.325	.325	.325	.325	1.30
2005	.325	.325	.325	.345	

BUSINESS: Northwest Natural Gas Co. (doing business as NW Natural) distributes natural gas at retail to 90 communities, 596,000 customers, in Oregon (96% of revs.) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.4 mil. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system to bring gas to market. Owns local underground storage. Rev. breakdown: resident'l & comm'l, 84%; ind., 10%; transport and other, 6%. Employs 1,291. Has abt 9,200 com. shrhldrs. Insiders own about 1% of com. (4/05 proxy). CEO: Mark S. Dodson. Inc.: OR. Addr.: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Web: www.nwnatural.com.

Northwest Natural's third-quarter loss was about as expected, despite a considerable increase in revenues and cost of gas. Gross profit rose about \$5 million, due largely to price hikes, as residential, commercial, and firm industrial gas volumes were virtually unchanged from the prior-year period. Profits from interstate gas storage contributed \$0.06 a share in 2005, due to the completion of the South Mist Pipeline Extension, compared with \$0.02 in 2004. Notably, bad debt expense remained at a low level of half a percent of revenues, despite higher gas bills. During the September quarter, the Oregon Public Utility Commission renewed the company's "conservation" tariff for another four years and raised its coverage from 90% to 100% of residential and commercial volumes. The mechanism largely decouples earnings from gas volumes sold. **We look for a more normal share-net gain over the next year.** Northwest's weather adjustment rate mechanism (WARM) added \$0.18 a share to first-quarter 2005 earnings, so we do not anticipate a similar gain in 2006. But the company added 3.4% more gas customers in the 12 months ended September 30th, and they should contribute to the bottom line in 2006. The storage business will likely add a few cents a share, too. Importantly, Northwest had bought most of its gas for the current heating season by August 1st; that should limit the average increase in residential bills to around 15%, which is well below the national average forecast increase. As a result, we do not expect industrial gas volumes to suffer. **Earnings will probably grow slightly faster than the industry average.** Northwest has raised its customer count at more than 3% per year for 19 years, and we see no reason why that should change. The company has enough good new customer prospects (on or near its mains) to potentially raise its count by over 40%. And NWN has borrowing capacity to fund acquisitions, should a neighboring utility come on the market. **These top-quality shares have some appeal to conservative accounts at their recent price.** The stock is down from its recent high, and we think annual dividend hikes will continue.

Sigourney B. Romaine December 16, 2005

<p>(A) Diluted earnings per share. Excludes non-recurring gain: '98, \$0.15; '00, \$0.11. Next earnings report due early February.</p> <p>(B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November.</p> <p>■ Div'd reinvestment plan available.</p> <p>(C) In millions, adjusted for stock split.</p>		<p>Company's Financial Strength A</p> <p>Stock's Price Stability 100</p> <p>Price Growth Persistence 55</p> <p>Earnings Predictability 70</p>
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		<p>To subscribe call 1-800-833-0046.</p>

PEOPLES ENERGY NYSE-PGL

RECENT PRICE **36.44**

P/E RATIO **15.6** (Trailing: 16.1 Median: 14.0)

RELATIVE P/E RATIO **0.85**

DIVID YLD **6.0%**

VALUE LINE

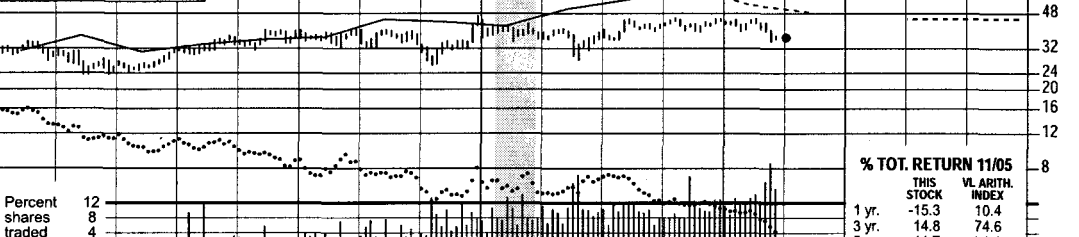
TIMELINESS 5 Lowered 11/11/05
SAFETY 1 Raised 9/29/05
TECHNICAL 3 Raised 7/8/05
BETA .85 (1.00 = Market)

LEGENDS
 1.22 x Dividends p sh
 divided by Interest Rate
 Relative Price Strength
 Options: Yes
 Shaded area indicates recession

2008-10 PROJECTIONS
 Price **60** Gain **(+65%)** Ann'l Total Return **18%**
 High **60** Low **45** (+25%)

Insider Decisions
 J F M A M J J A S
 to Buy 0 0 1 0 0 0 0 0 0
 to Sell 0 2 0 0 0 0 0 0 0
 Options 0 3 0 0 0 0 0 0 0

Institutional Decisions
 1Q2005 2Q2005 3Q2005
 to Buy 94 94 105
 to Sell 73 79 66
 Hld's(000) 19746 22022 21808



1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
36.42	35.63	33.69	31.54	36.09	36.70	29.60	34.29	36.34	32.28	33.66	40.16	64.13	41.81	58.28	59.90	68.40	72.50	Revenues per sh ^A	88.55
3.92	3.74	3.73	3.67	3.85	3.99	3.68	4.98	4.92	4.44	4.74	5.58	5.84	5.59	5.88	5.32	5.20	5.55	"Cash Flow" per sh	7.15
2.39	2.07	2.05	2.06	2.11	2.13	1.78	2.96	2.81	2.25	2.39	2.71	3.16	2.80	2.87	2.18	2.26	2.40	Earnings per sh ^B	3.10
1.58	1.65	1.71	1.76	1.78	1.80	1.80	1.82	1.87	1.91	1.95	2.00	2.04	2.07	2.12	2.16	2.18	2.20	Div'ds Decl'd per sh ^C	2.32
4.15	3.15	3.10	3.40	3.77	2.50	2.75	2.45	2.55	4.05	6.45	7.02	7.52	5.66	5.10	5.02	4.45	4.75	Cap'l Spending per sh	6.55
16.20	16.61	16.95	17.72	18.02	18.39	18.38	19.49	20.43	21.03	21.66	22.02	22.76	22.74	23.11	23.06	21.05	21.45	Book Value per sh ^D	25.85
32.62	32.70	32.76	34.77	34.88	34.87	34.91	34.96	35.07	35.26	35.49	35.30	35.40	35.46	36.69	36.69	38.00	38.00	Common Shs Outst'g ^E	35.00
7.9	11.2	11.8	13.1	15.0	13.3	14.7	10.7	12.7	16.2	15.5	12.1	12.3	13.3	13.4	19.1	18.9		Avg Ann'l P/E Ratio	17.0
.60	.83	.75	.79	.89	.87	.98	.67	.73	.84	.88	.79	.63	.73	.76	1.02	.99		Relative P/E Ratio	1.15
8.4%	7.1%	7.0%	6.5%	5.6%	6.3%	6.9%	5.7%	5.2%	5.2%	5.3%	6.1%	5.2%	5.5%	5.5%	5.2%	5.1%		Avg Ann'l Div'd Yield	4.4%

CAPITAL STRUCTURE as of 6/30/05
 Total Debt \$912.3 mill. Due in 5 Yrs \$315.0 mill.
 LT Debt \$897.1 mill. LT Interest \$50.0 mill.
 (Total interest coverage: 4.7x)
 Pension Assets-9/04 \$544.9 mill.
 Oblig. \$515.8 mill.
 Pfd Stock None

Common Stock 38,139,661 shs.
 as of 7/29/05
MARKET CAP: \$1.4 billion (Mid Cap)

CURRENT POSITION 2003 2004 6/30/05
 (\$MILL.)
 Cash Assets 33.0 21.1 100.0
 Other 457.1 531.3 509.9
 Current Assets 490.1 552.4 609.9

Accts Payable 236.6 144.7 163.5
 Debt Due 207.9 55.6 15.2
 Other 156.1 335.8 392.4
 Current Liab. 600.6 536.1 571.1
 Fix. Chg. Cov. 259% 304% 388%

ANNUAL RATES Past Past Est'd '02-'04
 of change (per sh) 10 Yrs 5 Yrs to '08-'10
 Revenues 5.0% 10.0% 9.0%
 "Cash Flow" 4.5% 4.0% 4.0%
 Earnings 3.5% 2.0% 3.0%
 Dividends 1.5% 2.0% 1.5%
 Book Value 2.5% 2.5% 2.0%

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	377.5	522.8	347.1	235.1	1482.5
2003	549.2	903.8	398.1	287.3	2138.4
2004	604.9	927.0	401.1	327.1	2260.2
2005	737.4	1026.9	455.9	379.4	2599.6
2006	805	1115	465	370	2755

Fiscal Year Ends	Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2002	.87	1.55	.33	.05	2.80
2003	.87	1.77	.22	.04	2.87
2004	.85	1.46	.15	d.27	2.18
2005	.77	1.37	.18	d.06	2.26
2006	.79	1.38	.22	.01	2.40

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.50	.51	.51	.51	2.03
2002	.51	.52	.52	.52	2.07
2003	.53	.53	.53	.53	2.12
2004	.54	.54	.54	.54	2.16
2005	.545	.545	.545	.545	

BUSINESS: Peoples Energy Corporation distributes natural gas via its utility subsidiaries, Peoples Gas Light & Coke Co. (approx. 1,000,000 customers at 9/30/04) and North Shore Gas Co. (150,000), in Chicago and northeastern Illinois. Fiscal 2004 volume: 229 bill. cu. ft.: residential, 51%; commercial, 9%; industrial, 2%; other, 38%. Main supplier is Natural Gas Pipeline Co. of America.

Fiscal 2005 (ended September 30th) was not the best year for Peoples Energy. For the full year, operating results for the core gas distribution business were negatively impacted by an 5% decline in gas deliveries, to 218 billion cubic feet. This resulted in a \$7 million dip in operating income for the division. Deliveries fell due to a combination of warmer weather, lower average use per customer, and a decrease in customer count. Indeed, weather for the year was 9% warmer than normal and 4% warmer than last year. Higher pension and bad debt expenses didn't help matters either. We believe that bad debt expenses and conservation could prove worse than management presently anticipates this fiscal year, which will depress earnings. Peoples is filing rate cases this January for its two utilities, seeking a total of \$90-115 million that would become effective at the beginning of 2007. Meanwhile, **Production in the Oil and Gas segment continues to fall.** Overall production declined nearly 12% in fiscal 2005. Management once again cited ongoing timing delays with the company's drilling pro-

gram, in addition to well performance issues, pipeline curtailments, and equipment downtime. Peoples' production segment was again overly hedged in the September quarter and suffered \$7.7 million in mark-to-market losses.

We have lowered our share earnings estimate for fiscal 2006 by \$0.30, to \$2.40. This is near the upper end of management's reduced target range. The full weight of rate relief and the expiration of profit-crimping hedges may not help until fiscal 2007. At this level of earnings, the company's payout ratio stands dangerously close to 95%, a level we feel is unsustainable over the long haul. This leads us to wonder whether dividend increases will be slow to come in the future. Non core operations have not been enough to cover the faltering gas distribution business. That said, we believe the dividend is safe for now, though we expect management might choose to halt quarterly increases, or keep them to one-half cent per share, rather than the one cent gains shareholders were used to in the past. Peoples stock is untimely.

Edward Plank December 16, 2005

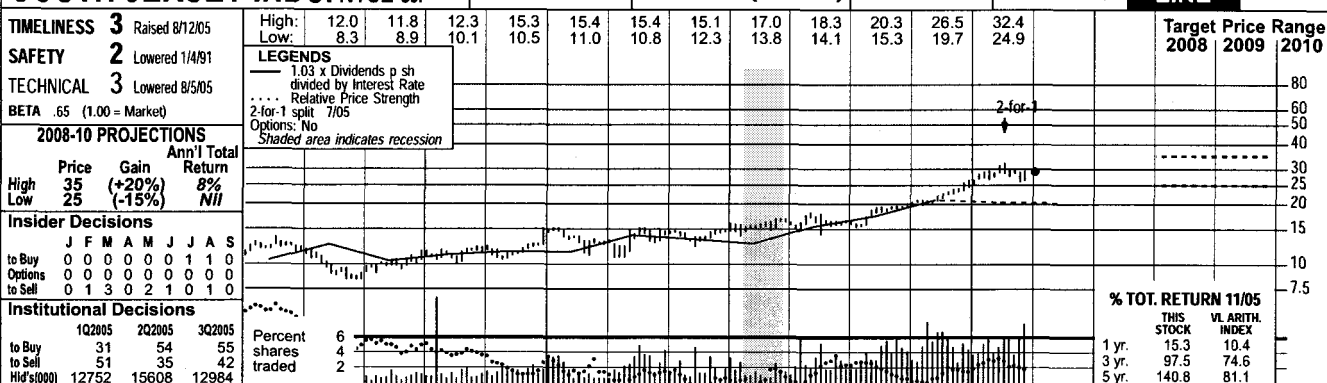
(A) Fiscal year ends Sept. 30th.	(C) Dividends historically paid mid-January, April, July, October. ■ Dividend reinvestment plan available.	(E) In millions.	Company's Financial Strength A
(B) Basic earnings per share. Excludes acct'g gains/(losses): '89, \$0.30; '99, \$0.22; '00, (\$0.27). Next earnings report due late Jan.	(D) Includes deferred charges. At 9/30/04:	(F) Earnings don't sum due to change in shares outstanding.	Stock's Price Stability 95
			Price Growth Persistence 45
			Earnings Predictability 80

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SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE **29.32** P/E RATIO **15.1** (Trailing: 16.0 Median: 13.0) RELATIVE P/E RATIO **0.82** DIV'D YLD **3.2%** VALUE LINE



1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
15.27	14.40	15.10	16.67	17.03	17.45	16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.35	32.75	Revenues per sh	36.45
1.50	1.34	1.37	1.56	1.54	1.35	1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.75	2.95	"Cash Flow" per sh	3.30
.83	.67	.64	.81	.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.87	2.00	Earnings per sh ^A	2.20
.68	.70	.71	.71	.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.93	Div'ds Decl'd per sh ^B	1.10
2.27	2.11	2.17	1.69	1.87	1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.20	3.80	Cap'l Spending per sh	3.25
6.74	6.79	6.77	6.95	7.17	7.23	7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.65	15.10	Book Value per sh ^C	18.90
16.96	18.06	18.48	19.00	19.61	21.43	21.44	21.51	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.70	29.00		Common Shs Outst'g ^D	31.00
11.9	13.6	14.5	13.2	15.8	16.1	12.2	13.3	13.8	12.1	13.3	13.0	13.6	13.5	13.3	14.1	14.1	14.1	Avg Ann'l P/E Ratio	14.0
.90	1.01	.93	.80	.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.75	.75	.75	Relative P/E Ratio	.95
6.9%	7.7%	7.6%	6.6%	5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%			Avg Ann'l Div'd Yield	3.6%

CAPITAL STRUCTURE as of 9/30/05
Total Debt \$392.9 mill. Due in 5 Yrs \$58.5 mill.
LT Debt \$319.1 mill. LT Interest \$20.5 mill.
(Total interest coverage: 5.0x)

Pension Assets-12/04 \$107.5 mill.
Oblig. \$100.5 mill.

Pfd Stock none

Common Stock 28,703,549 common shs.
(as of 11/8/05)

MARKET CAP: \$850 million (Small Cap)

CURRENT POSITION	2003	2004	9/30/05
Cash Assets	4.4	5.3	6.7
Other	261.4	278.6	287.8
Current Assets	265.8	283.9	294.5
Accts Payable	80.3	118.8	136.7
Debt Due	118.1	97.6	73.8
Other	70.1	68.9	113.4
Current Liab.	268.5	285.3	323.9
Fix. Chg. Cov.	378%	427%	445%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04
Revenues	4.0%	7.0%	6.0%
"Cash Flow"	4.5%	7.0%	6.5%
Earnings	6.5%	10.5%	8.0%
Dividends	1.0%	1.5%	6.0%
Book Value	4.5%	11.5%	9.5%

Cal-endar	QUARTERLY REVENUES (\$ mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2002	177.0 84.2 69.1 174.8	505.1
2003	279.9 106.2 90.1 220.6	696.8
2004	307.6 136.5 129.5 245.5	819.1
2005	328.5 154.0 157.0 260.5	900
2006	340 170 165 275	950

Cal-endar	EARNINGS PER SHARE ^A	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2002	.83 .03 d.14 .50	1.22
2003	.92 .08 d.07 .44	1.37
2004	.91 .15 .02 .50	1.58
2005	.96 .27 .09 .55	1.87
2006	1.00 .30 .13 .57	2.00

Cal-endar	QUARTERLY DIVIDENDS PAID ^B	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2001	.182 .185 .185 .185	.74
2002	.185 .188 .188 .38	.94
2003	--- .193 .193 .395	.78
2004	--- .202 .202 .415	.82
2005	--- .213 .213 .438	

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 314,000 customers in New Jersey's southern counties, which cover 2,500 square miles and include Atlantic City. Principal suppliers include Transcontinental Gas Pipeline and Columbia Gas Pipeline. Gas revenue mix '04: residential, 31%; commercial and industrial,

South Jersey Industries is on pace for another good year in 2005. It reported earnings of \$37.1 million over the first nine months, up nearly 30% from the year-ago period. These results were driven by strong profits at the company's utility segment, along with an expanding nonregulated division (discussed below). Over the last 12 months, South Jersey Gas added 9,068 customers, representing a near 3% growth rate, well above the national average. Coupled with a strong housing market in South Jersey, profits in this unit will likely expand at a nice pace over the 2008-2010 period.

The company expects to make significant additions to its reserves for bad debt. This is due to the projected high natural gas prices this winter, which would result in higher heating bills, and the likelihood of customers being unable to afford these costs. South Jersey will take measures to promote budget billing options and low-income assistance programs. **South Jersey is experiencing solid growth from its nonregulated businesses.** So far this year, the segment has contributed \$12 million to earnings,

10%; transportation, including off-system sales and gas marketing, 54%; off-system, 4%; cogeneration & power generation, 1%. Has 643 employees. Offs./dirs. cntrl. 1.4% of com. shares; Dimensional Fund Advisors, 7.4% (3/05 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Rte. 54, Folsom, NJ 08037. Telephone: 609-561-9000. Web: www.sjindustries.com.

43% above last year's tally. The Marina Energy unit should experience additional growth in the next few years, thanks to expansion projects under way. This includes the development of a landfill gas-to-electric power generation facility in Warren County, along with the expansion of its Atlantic City thermal electric plant to support the scheduled 500,000-square-foot expansion at the Borgata Hotel Casino & Spa. Profits from appliance services should rise, too, as penetration in the residential market is expanded and service in the commercial market is initiated.

The company has implemented an early retirement program. This would provide South Jersey with significant future cost savings in the payroll, healthcare benefits, and pension areas.

South Jersey is a good-quality equity. However, its dividend yield is below that of the average natural gas distributor covered in *The Value Line Investment Survey*. Over the 3- to 5-year pull, we look for continued growth in the customer base, expansion in the nonutility sector, and above-average dividend increases.

Evan I. Blatter December 16, 2005

(A) Based on avg. shs. Excl. nonrecr. gain: '01, \$0.13. Excl. gain (losses) from discount ops.: '96, \$1.14; '97, (\$0.24); '98, (\$0.26); '99, (\$0.02); '00, (\$0.04); '01, (\$0.02); '02, (\$0.04); '03, (\$0.09); '05, (\$0.01). Excl. gain due to acct'g change: '93, \$0.04; '01, \$0.14. Next eqs. report due late January.	(B) Dividends paid early Apr., Jul., Oct, and late Dec. ■ Div. reinvest. plan avail. (2% disc.). (C) Incl. regulatory assets (\$76.2 mill.); at 9/30/05, \$2.65 per shr. (D) In millions, adjusted for split.	Company's Financial Strength B++ Stock's Price Stability 100 Price Growth Persistence 90 Earnings Predictability 85
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SOUTHWEST GAS

NYSE-SWX

RECENT PRICE 26.65

P/E RATIO 17.5 (Trailing: 16.6 Median: 20.0)

RELATIVE P/E RATIO 0.95

DIV'D YLD 3.1%

VALUE LINE

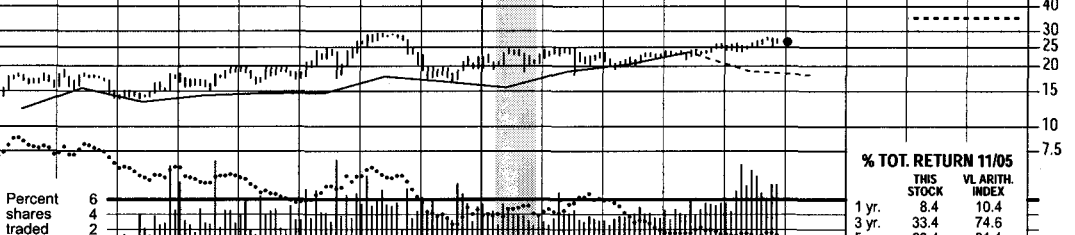
TIMELINESS 3 Raised 8/19/05
SAFETY 3 Lowered 1/4/91
TECHNICAL 3 Lowered 10/21/05
BETA .80 (1.00 = Market)

LEGENDS
1.15 x Dividends p sh
divided by Interest Rate
Relative Price Strength
Options: No
Shaded area indicates recession

2008-10 PROJECTIONS
Price Gain Ann'l Total
High 55 (+105%) 21%
Low 35 (+30%) 9%

Insider Decisions
J F M A M J J A S
to Buy 0 0 1 0 1 0 0 0 0
Options 0 0 1 1 1 4 0 5 7
to Sell 0 0 4 1 3 7 0 5 7

Institutional Decisions
10/20/05 2/20/05 3/20/05
to Buy 66 69 72
to Sell 45 45 46
Hld's(000) 22540 22886 26079



1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
25.71	25.90	24.99	25.93	25.68	28.16	23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	44.10	46.15	Revenues per sh ^A	47.00
4.10	3.96	1.53	3.34	3.24	5.09	2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.40	5.85	"Cash Flow" per sh	7.00
2.15	1.81	d.76	.81	.63	1.22	.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.40	1.65	Earnings per sh ^{A,B}	2.45
1.39	1.40	.88	.70	.74	.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	Div'ds Decl'd per sh ^C	.82
5.67	5.06	3.76	5.02	5.43	6.64	6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	6.40	6.40	Cap'l Spending per sh	6.25
17.30	17.63	15.88	15.99	15.96	16.38	14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.95	20.75	Book Value per sh	23.45
19.32	20.04	20.60	20.60	21.00	21.28	24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.00	39.00	Common Shs Outst'g ^D	41.50
8.5	8.7	--	16.6	26.5	14.0	NMF	NMF	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	10.9	7.6	Avg Ann'l P/E Ratio	18.0
.64	.65	--	1.01	1.57	.92	NMF	NMF	1.39	.69	1.20	1.04	.97	1.09	1.09	.76			Relative P/E Ratio	1.20
7.6%	8.9%	7.0%	5.2%	4.4%	4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%			Avg Ann'l Div'd Yield	1.9%

CAPITAL STRUCTURE as of 9/30/05
Total Debt \$1359.2 mill. Due in 5 Yrs \$505.0 mill.
LT Debt \$1249.2 mill. LT Interest \$80.0 mill.
(Total interest coverage: 1.9x)

Pension Assets-12/04 \$242.2 mill.
Oblig. \$319.4 mill.

Pfd Stock None

Common Stock 39,124,126 shs.
(as of 11/1/05)

MARKET CAP: \$1.0 billion (Mid Cap)

CURRENT POSITION	2003	2004	9/30/05
(\$MILL.)			
Cash Assets	17.2	13.6	16.9
Other	263.9	418.4	281.1
Current Assets	281.1	432.0	298.0
Accts Payable	110.1	165.9	97.6
Debt Due	58.4	129.8	110.0
Other	141.9	187.3	182.7
Current Liab.	310.4	483.0	390.3
Fix. Chg. Cov.	182%	166%	183%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04
of change (per sh)			
Revenues	4.0%	3.5%	3.5%
"Cash Flow"	3.0%	4.5%	6.0%
Earnings	4.0%	1.5%	10.5%
Dividends	1.0%	--	1.5%
Book Value	1.5%	4.0%	4.0%

Cal-endar	QUARTERLY REVENUES (\$mill.)	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2002	499.5 261.1 223.9 336.4	1320.9
2003	403.3 255.8 220.2 351.7	1231.0
2004	473.4 278.7 264.5 460.5	1477.1
2005	542.9 361.1 313.3 502.7	1720
2006	565 390 330 515	1800

Cal-endar	EARNINGS PER SHARE ^{B,E}	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2002	1.14 d.35 d.49 .86	1.16
2003	.76 d.12 d.51 1.00	1.13
2004	1.18 d.24 d.51 1.23	1.66
2005	.88 d.07 d.43 1.02	1.40
2006	1.00 d.07 d.45 1.17	1.65

Cal-endar	QUARTERLY DIVIDENDS PAID ^C	Full Year
	Mar.31 Jun.30 Sep.30 Dec.31	
2001	.205 .205 .205 .205	.82
2002	.205 .205 .205 .205	.82
2003	.205 .205 .205 .205	.82
2004	.205 .205 .205 .205	.82
2005	.205 .205 .205 .205	.82

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approx. 1.6 million customers in sections of Arizona, Nevada, and California. '04 margin mix: resid. and small commercial, 83%; large commercial and industrial, 4%; transportation, 13%. Annual volume: 2.2 billion therms. Principal suppliers: El Paso Natural Gas Co. and Northwest Pipeline Corp. Acquired gas utility as-

Southwest Gas had a stronger-than-expected third-quarter. Share loss of \$0.43, was above our estimate of \$0.55, and a solid improvement over last year. The company is finally beginning to see the results of its rate case initiatives bear fruit. Indeed, rate relief in Nevada and California, coupled with an incremental \$4 million in gross margin from customer additions, accounted for the improvement.

The company is awaiting a rate-case decision in Arizona, which would mitigate the impact of weather on earnings and allow the company to recover its higher costs—all of which should benefit earnings going forward. Importantly, without the change in rate design, we think that Southwest's return on equity will continue to lag that of its peers. We suspect that Southwest will receive at least half of the \$70.8 million it is seeking from the Arizona Corporation Commission (ACC). The proposed rate increase includes components designed to more closely tie the company's revenues to the fixed costs incurred in providing service. One proposed enhancement to the rate schedule is to shift more revenue into lower-usage peri-

ods and away from peak winter periods that depend on cold weather, which would reduce SWX's exposure to potentially warmer-than-normal temperatures. A decision is expected in early 2006.

During the last twelve months, Southwest added a record 79,000 customers. Typically, this pace of customer growth, while impressive, has been a doubled-edged sword for the company, given the implicit costs associated with such rapid expansion, but the improved rate structure is helping to ease the burden.

Southwest shares are not a standout. The company's balance sheet remains fairly highly leveraged, and higher interest rates have raised the cost of SWX's variable-rate debt. Plus, since dividend payments have not expanded in almost a decade, SWX shares are not all that appealing as an income vehicle. At about 3%, the dividend yield remains decent, but we think investors may want to look elsewhere for now. While we feel that the utility is showing signs of stabilizing earnings, a favorable award from the ACC is key to the long-term story here.

Edward Plank December 16, 2005

(A) Incl. income for PfiMerit Bank on the equity basis through 1994.
(B) Based on avg. shares outstanding thru '96, then diluted. Excl. nonrec. gains (losses): '93, '86, '97, '16, '02, (10¢). Incl. asset writedown: '86, '9¢, '93, 44¢. Excl. loss from disc. ops.: '95, 75¢. Next egs. report due late January.
(C) Dividends historically paid early March.
(D) Div'd reinvest. plan avail. (D) In millions.
(E) Quarters may not sum due to change in shares outstanding.

Company's Financial Strength	B
Stock's Price Stability	95
Price Growth Persistence	55
Earnings Predictability	65

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Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - AMER STATES WTR (AWR)						
Analyst Estimates						
Current Average Estimate	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06		
	0.21	0.23	1.14	1.46		
	0.22	0.24	1.30	1.50		
	0.20	0.22	1.00	1.38		
High						
Low						
# of Analysts	3	2	3	3		
Year ago actual	0.16	0.19	1.18	-		
EPS growth (year-over-year)	29.17%	21.05%	(3.67%)	28.45%		

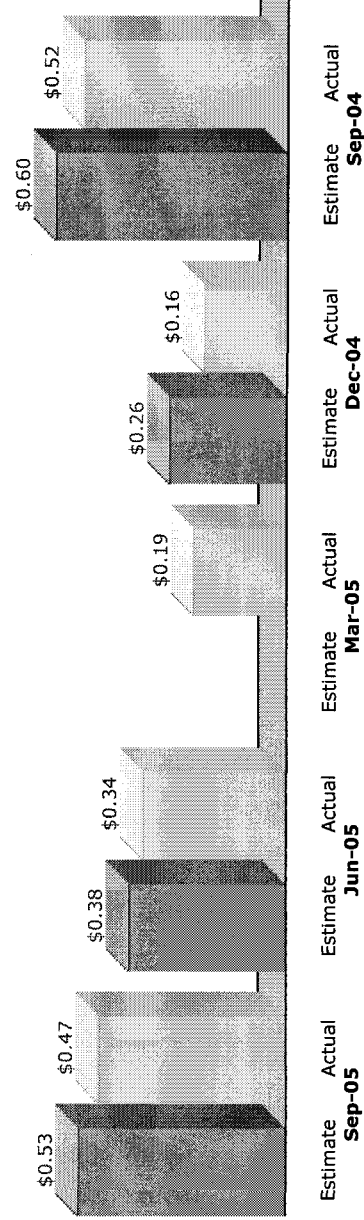
ANALYST RECOMMENDATIONS - AMER STATES WTR (AWR)

Recommendation History					Current Recommendations	
Current	1-month	2-month	3-month	Number of brokers		
0	0	0	0	0	Strong Buy	0

Mod Buy	0	0	0	0	Mod Buy	0
Hold	3	3	2	Hold		3
Mod Sell	0	0	0	Mod Sell	0	
Strong Sell	0	0	0	Strong Sell	0	
Average Recommendation						
Consensus	3	3	3	Consensus	3	Strong Buy
1-Strong Buy, 5-Strong Sell						
Strong Sell						

EPS TRENDS / GROWTH									
Consensus EPS Trend				Earnings Growth Rate					
	This qtr Dec-05	Next qtr Mar-06	This Yr Dec-05	Next Yr Dec-06	Long Term	Last 5 years	This Yr (Dec-05)	Next Yr (Dec-06)	Next 5 years
Current	0.21	0.23	1.14	1.46	6.00%	AWR	0.30%	4.00%	-
7 Days Ago	0.21	0.23	1.15	1.46	6.00%	UTIL-WATER SPL	18.30%	7.80%	6.30%
1 Month Ago	0.22	0.23	1.30	1.46	6.00%	S&P 500	(4.00%)	13.30%	17.50%
2 Months Ago	0.22	0.23	1.30	1.46	6.00%				
3 Months Ago	0.23	0.22	1.30	1.44	6.00%				

EARNINGS SURPRISE HISTORY



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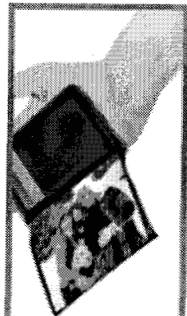


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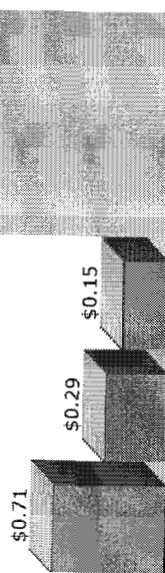
Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - CALIF WATER SVC (CWT)

Analyst Estimates

Current Estimates

	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06				
Current Average Estimate	0.29	0.15	1.49	1.71				
High	0.36	0.18	1.60	1.86				
Low	0.22	0.11	1.38	1.60				
# of Analysts	4	2	6	6				
Year ago actual	0.20	0.03	1.46	-				
EPS growth (year-over-year)	43.75%	383.33%	1.71%	15.04%				
					Actual Last qtr	This qtr	Next qtr	Next year



ANALYST RECOMMENDATIONS - CALIF WATER SVC (CWT)

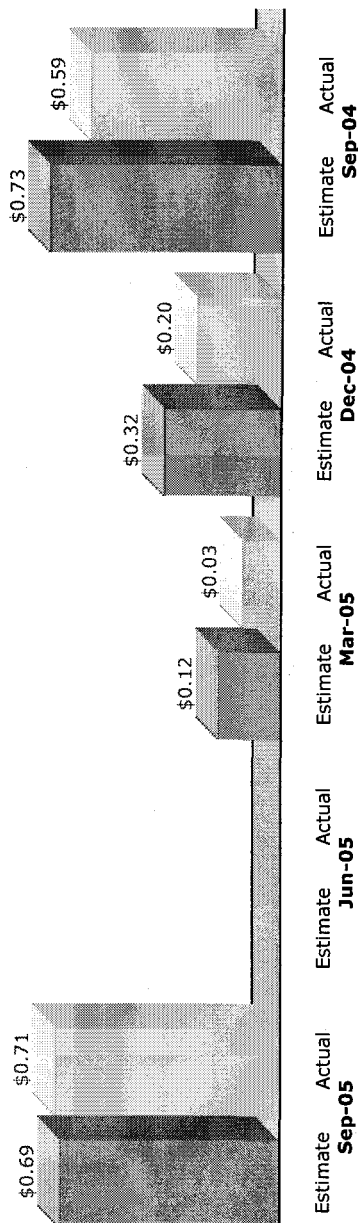
Recommendation History

Current Recommendations

	Current	1-month	2-month	3-month	Number of brokers	
Strong Buy	1	1	1	1	Strong Buy	1
Mod Buy	1	1	1	1	Mod Buy	1
Hold	4	4	4	3	Hold	
Mod Sell	0	0	0	0	Mod Sell	0
Strong Sell	0	0	0	0	Strong Sell	0
	Average Recommendation					
Consensus	2.5	2.5	2.5	2.5	Consensus	2.5
1-Strong Buy,5-Strong Sell						
					Strong Buy	Strong Sell

EPS TRENDS / GROWTH**Consensus EPS Trend**

	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06	Long Term	Earnings Growth Rate		
Current	0.29	0.15	1.49	1.71	7.67%	CWT	Last 5 years	Next yr (Dec-06)
7 Days Ago	0.29	0.15	1.49	1.71	7.67%	UTIL-WATER SPL	7.10%	23.60%
1 Month Ago	0.28	0.15	1.49	1.71	7.67%	S&P 500	8.40%	18.30%
2 Months Ago	0.28	0.15	1.46	1.71	7.67%		(4.00%)	7.80%
3 Months Ago	0.29	0.18	1.44	1.71	7.67%			13.30%
								17.50%

EARNINGS SURPRISE HISTORY



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Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - SOUTHWEST WATER (SWWC)

Analyst Estimates

Current Estimates

	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06	
Current Average Estimate	0.08	0.06	0.41	0.45	
High	0.12	0.06	0.54	0.51	
Low	0.06	0.06	0.35	0.40	
# of Analysts	3	1	4	3	
Year ago actual	(0.02)	(0.01)	0.24	-	
EPS growth (year-over-year)	516.67%	700.00%	71.88%	9.90%	
			Actual Last qtr	Next qtr	Next year



ANALYST RECOMMENDATIONS - SOUTHWEST WATER (SWWC)

Recommendation History

Current Recommendations

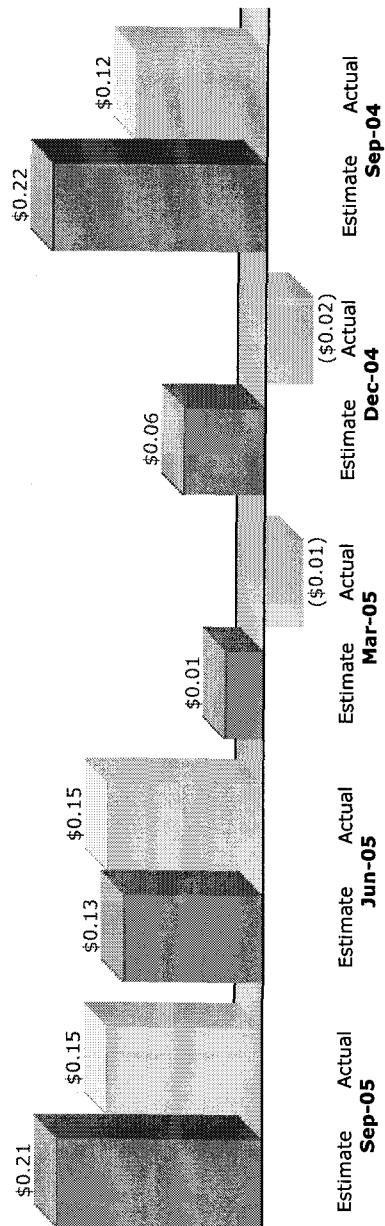
	Current	1-month	2-month	3-month	Number of brokers
Strong Buy	2	2	2	1	Strong Buy

2

Mod Buy	0	0	0	0	0	Mod Buy	0	
Hold	2	2	2	2	2	Hold	2	
Mod Sell	0	0	0	0	0	Mod Sell	0	
Strong Sell	0	0	0	0	0	Strong Sell	0	
Average Recommendation								
Consensus	2	2	2	2	2	Consensus	2	
1-Strong Buy, 5-Strong Sell								
							Strong Buy	Strong Sell

EPS TRENDS / GROWTH**Consensus EPS Trend****Earnings Growth Rate**

	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06	Long Term		Last 5 years	This yr (Dec-05)	Next yr (Dec-06)	Next 5 years
Current	0.08	0.06	0.41	0.45	5.50%	SWWC	27.00%	6.10%	9.10%	-
7 Days Ago	0.08	0.06	0.41	0.45	5.50%	UTIL-WATER SPL	7.10%	18.30%	7.80%	6.30%
1 Month Ago	0.09	0.11	0.42	0.47	5.50%	S&P 500	8.40%	(4.00%)	13.30%	17.50%
2 Months Ago	0.09	0.11	0.42	0.47	5.50%					
3 Months Ago	0.07	0.11	0.38	0.47	5.50%					

EARNINGS SURPRISE HISTORY**BROKERS**



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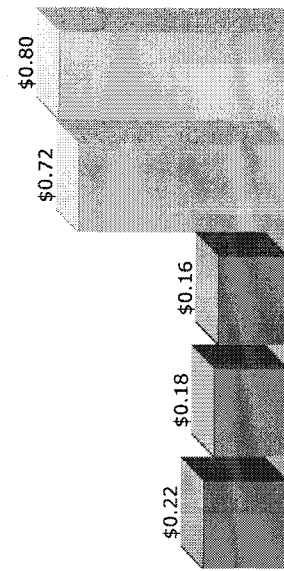
Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - AQUA AMER INC (WTR)

Analyst Estimates

	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06
Current Average Estimate	0.18	0.16	0.72	0.80
High	0.19	0.17	0.74	0.83
Low	0.17	0.16	0.71	0.78
# of Analysts	5	2	7	5
Year ago actual	0.18	0.15	0.64	-
EPS growth (year-over-year)	(0.83%)	7.50%	12.94%	11.04%

Current Estimates



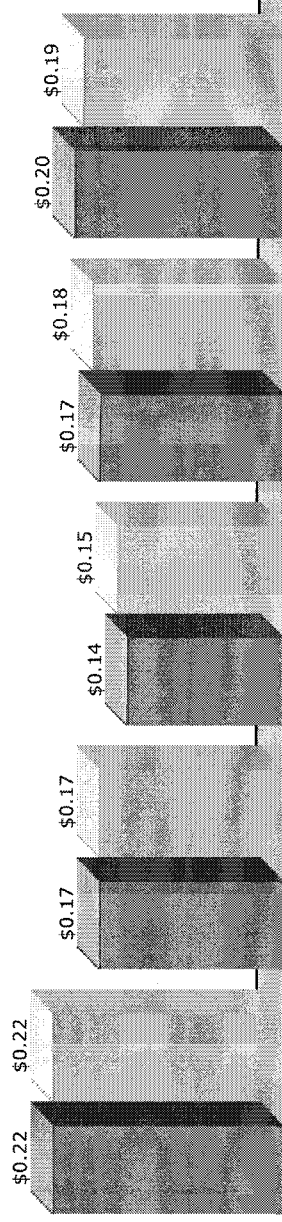
Actual Last qtr	\$0.22
This qtr	\$0.18
Next qtr	\$0.16
This year	\$0.72
Next year	\$0.80

ANALYST RECOMMENDATIONS - AQUA AMER INC (WTR)

Recommendation History

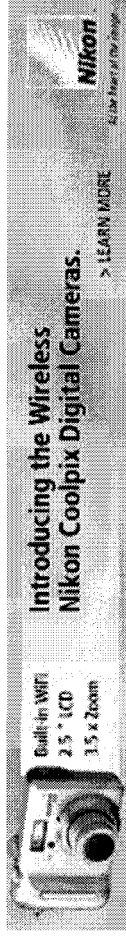
Current Recommendations

	Current	1-month	2-month	3-month	Number of brokers	
Strong Buy	2	2	2	2	Strong Buy	2
Mod Buy	0	0	0	0	Mod Buy	0
Hold	5	5	5	4	Hold	5
Mod Sell	0	0	0	0	Mod Sell	0
Strong Sell	0	0	0	0	Strong Sell	0
Average Recommendation						
Consensus	2.43	2.43	2.43	2.43	Consensus	2.43
1-Strong Buy,5-Strong Sell						
					Strong Buy	Strong Sell

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Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - CASCADE NAT GAS (CGC)

Analyst Estimates

		Current Estimates			
		This qtr Dec-05	Next qtr Mar-06	This yr Sep-06	Next yr Sep-07
Current Average Estimate		0.71	0.75	1.20	-
High		0.75	0.75	1.25	-
Low		0.66	0.75	1.15	-
# of Analysts		2	1	2	0
Year ago actual		0.63	0.65	0.96	-
EPS growth (year-over-year)		11.90%	15.38%	25.00%	-
		<div> <div>(\$0.32)</div> <div>Actual Last qtr</div> <div>This qtr</div> <div>Next qtr</div> <div>This year</div> <div>Next year</div> </div>			

ANALYST RECOMMENDATIONS - CASCADE NAT GAS (CGC)

Recommendation History

Current	1-month	2-month	3-month	Current Recommendations	Number of brokers
---------	---------	---------	---------	-------------------------	-------------------

Strong Buy	0	0	0	0	0	0
Mod Buy	0	0	0	0	0	0
Hold	2	2	2	2	Hold	2
Mod Sell	0	0	0	0	Mod Sell	0
Strong Sell	0	0	0	0	Strong Sell	0
Average Recommendation						
Consensus	3	3	3	3	Consensus	3
1-Strong Buy,5-Strong Sell						

EPS TRENDS / GROWTH										
Consensus EPS Trend					Earnings Growth Rate					
	This qtr Dec-05	Next qtr Mar-06	This yr Sep-06	Next yr Sep-07	Long Term		Last 5 years	This yr (Sep-06)	Next yr (Sep-07)	Next 5 years
Current	0.71	0.75	1.20	-	6.00%	CGC	11.80%	4.50%	5.50%	4.10%
7 Days Ago	0.71	0.75	1.20	-	6.00%	UTIL-GAS DISTR	4.20%	14.00%	9.20%	8.00%
1 Month Ago	0.70	0.73	1.20	-	6.00%	S&P 500	8.40%	(4.00%)	13.30%	17.50%
2 Months Ago	0.65	0.73	1.20	-	6.00%					
3 Months Ago	-	-	1.25	-	6.00%					

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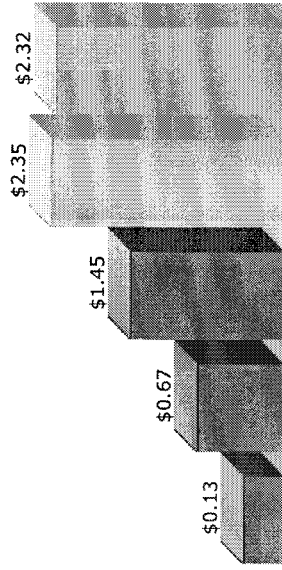
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Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - KEYSPAN CORP (KSE)

Analyst Estimates

	Current Estimates				Actual Last qtr	This qtr	Next qtr	This year	Next year
	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06					
Current Average Estimate	0.67	1.45	2.35	2.32					
High	0.74	1.45	2.38	2.45					
Low	0.61	1.45	2.32	2.09					
# of Analysts	7	1	9	8					
Year ago actual	0.88	1.49	2.77	-					
EPS growth (year-over-year)	(23.54%)	(2.68%)	(15.08%)	(1.53%)					



ANALYST RECOMMENDATIONS - KEYSPAN CORP (KSE)

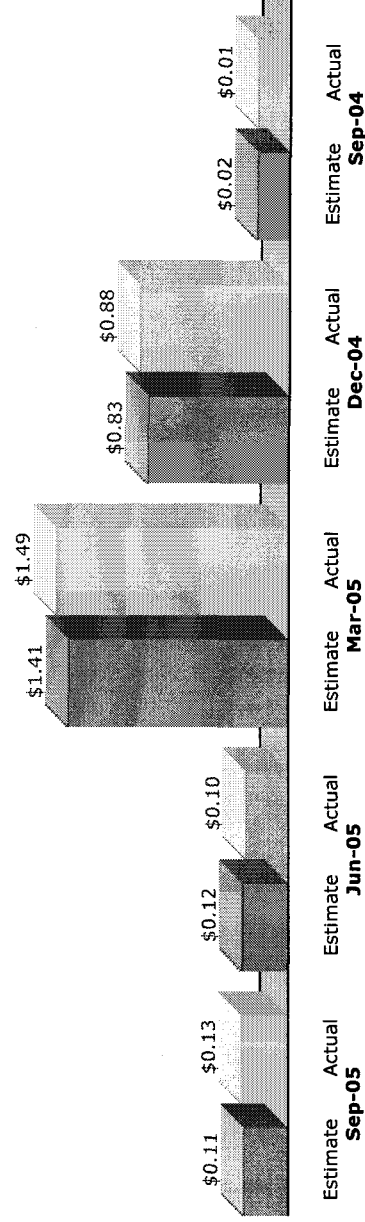
Recommendation History

	Current Recommendations			
	Current	1-month	2-month	3-month
Strong Buy	1	1	1	1
Buy				
Hold				
Sell				
Strong Sell				

Mod Buy	0	0	0	0	Mod Buy	0
Hold	9	9	9	9	Hold	9
Mod Sell	0	0	0	0	Mod Sell	0
Strong Sell	0	0	0	0	Strong Sell	0
Average Recommendation						
Consensus	2.82	2.82	2.82	2.82	Consensus	2.82
1-Strong Buy,5-Strong Sell						
					Strong Buy	Strong Sell

EPS TRENDS / GROWTH										
Consensus EPS Trend			Earnings Growth Rate							
	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06	Long Term		Last 5 years	This yr (Dec-05)	Next yr (Dec-06)	Next 5 years
Current	0.67	1.45	2.35	2.32	3.17%	KSE	4.60%	13.60%	9.10%	9.40%
7 Days Ago	0.67	1.45	2.35	2.32	3.17%	UTIL-GAS DISTR	4.20%	14.00%	9.20%	8.00%
1 Month Ago	0.70	1.45	2.37	2.35	2.75%	S&P 500	8.40%	(4.00%)	13.30%	17.50%
2 Months Ago	0.72	1.47	2.37	2.45	2.75%					
3 Months Ago	0.72	1.47	2.37	2.45	2.75%					

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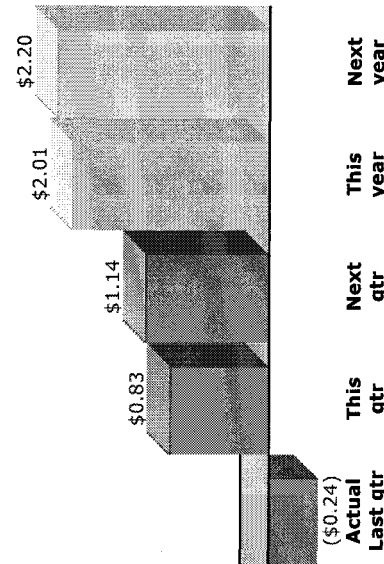
Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - LACLEDE GRP INC (LG)

Analyst Estimates

	This qtr Dec-05	Next qtr Mar-06	This yr Sep-06	Next yr Sep-07
Current Average Estimate	0.83	1.14	2.01	2.20
High	0.85	1.14	2.06	2.20
Low	0.81	1.14	1.97	2.20
# of Analysts	2	1	3	1
Year ago actual	0.79	1.06	1.90	-
EPS growth (year-over-year)	5.06%	7.55%	5.79%	9.45%

Current Estimates



ANALYST RECOMMENDATIONS - LACLEDE GRP INC (LG)

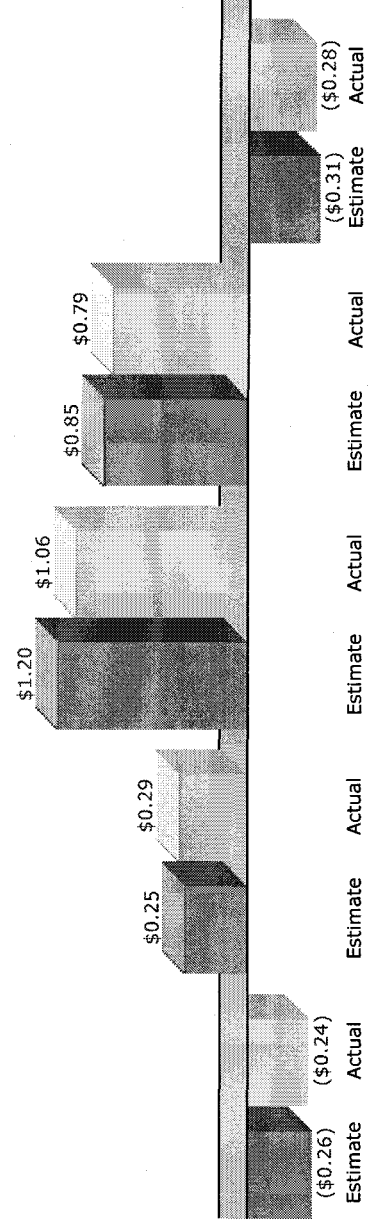
Recommendation History

Current Recommendations

	Current	1-month	2-month	3-month	Number of brokers	
Strong Buy	1	1	1	1	Strong Buy	1
Mod Buy	0	0	0	0	Mod Buy	0
Hold	2	2	2	2	Hold	2
Mod Sell	0	0	0	0	Mod Sell	0
Strong Sell	0	0	0	0	Strong Sell	0
Average Recommendation						
Consensus	2.33	2.33	2.33	2.33	Consensus	2.33
1-Strong Buy, 5-Strong Sell						
					Strong Buy	Strong Sell

EPS TRENDS / GROWTH**Consensus EPS Trend**


	This qtr Dec-05	Next qtr Mar-06	This yr Sep-06	Next yr Sep-07	Long Term	Earnings Growth Rate		
Current	0.83	1.14	2.01	2.20	5.00%	LG	Last 5 years	This yr (Sep-06)
7 Days Ago	0.85	-	2.01	-	5.00%	UTIL-GAS DISTR	(2.30%)	34.80%
1 Month Ago	0.85	-	2.01	-	5.00%	S&P 500	4.20%	14.00%
2 Months Ago	-	-	2.01	-	5.00%		8.40%	(4.00%)
3 Months Ago	-	-	2.00	-	5.00%			13.30%
								17.50%

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Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - NORTHWEST NAT G (NWN)					
Analyst Estimates			Current Estimates		
	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06	
Current Average Estimate	0.99	1.49	2.14	2.27	
High	1.00	1.52	2.17	2.33	
Low	0.96	1.46	2.10	2.19	
# of Analysts	4	3	6	6	
Year ago actual	0.97	1.43	1.86	-	
EPS growth (year-over-year)	1.55%	3.96%	14.87%	6.16%	

(\$0.31) \$0.99 \$1.49 \$2.14 \$2.27

ANALYST RECOMMENDATIONS - NORTHWEST NAT G (NWN)	
Recommendation History	Current Recommendations



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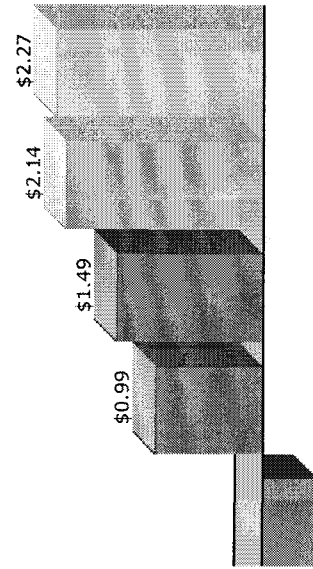
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EARNINGS PER SHARE (EPS) ESTIMATES - NORTHWEST NAT G (NWN)

Analyst Estimates

Current Estimates

	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06
Current Average Estimate	0.99	1.49	2.14	2.27
High	1.00	1.52	2.17	2.33
Low	0.96	1.46	2.10	2.19
# of Analysts	4	3	6	6
Year ago actual	0.97	1.43	1.86	-
EPS growth (year-over-year)	1.55%	3.96%	14.87%	6.16%



ANALYST RECOMMENDATIONS - NORTHWEST NAT G (NWN)

Recommendation History

Current Recommendations

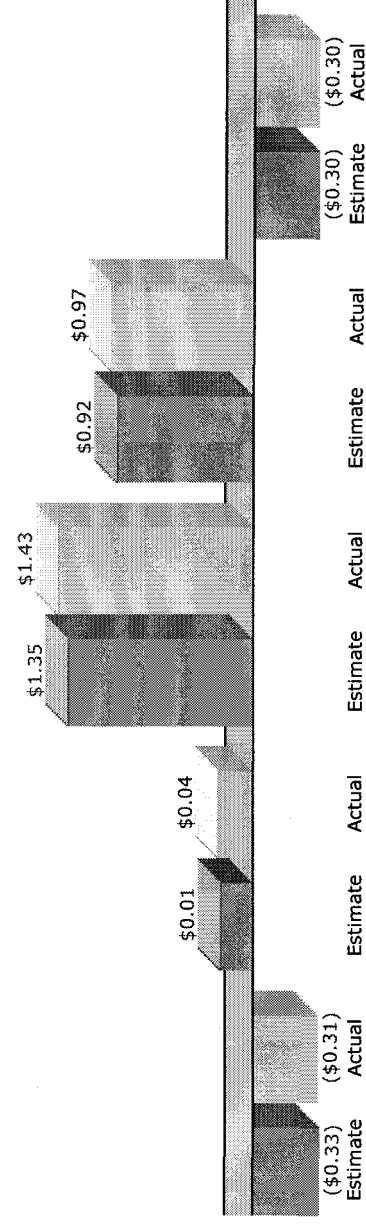
	Current	1-month	2-month	3-month	Number of brokers	
Strong Buy	1	1	1	1	Strong Buy	1
Mod Buy	1	1	1	1	Mod Buy	1
Hold	4	4	4	4	Hold	4
Mod Sell	0	0	0	0	Mod Sell	0
Strong Sell	0	0	0	0	Strong Sell	0
Average Recommendation						
Consensus	2.5	2.5	2.5	2.5	Consensus	2.5
1-Strong Buy, 5-Strong Sell						
					Strong Buy	Strong Sell

EPS TRENDS / GROWTH

Consensus EPS Trend

	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06	Long Term	Earnings Growth Rate		
Current	0.99	1.49	2.14	2.27	5.30%	NWN	Last 5 years	Next 5 years
7 Days Ago	0.99	1.49	2.14	2.27	5.30%	UTIL-GAS DISTR	1.20%	5.80%
1 Month Ago	0.99	1.49	2.14	2.27	5.30%	S&P 500	4.20%	8.00%
2 Months Ago	1.01	1.47	2.14	2.28	5.30%		8.40%	17.50%
3 Months Ago	1.01	1.47	2.14	2.28	5.30%			

EARNINGS SURPRISE HISTORY

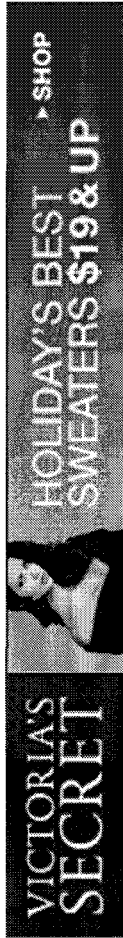




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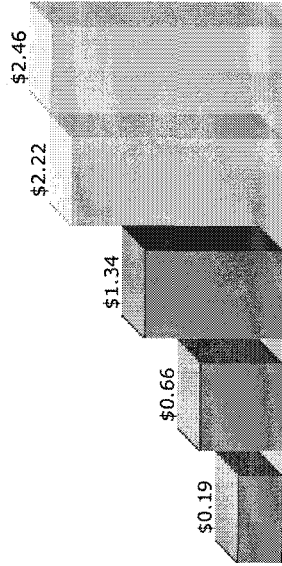
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Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - PEOPLE ENERGY CP (PGL)

Analyst Estimates

	This qtr Dec-05	Next qtr Mar-06	This yr Sep-06	Next yr Sep-07
Current Average Estimate	0.66	1.34	2.22	2.46
High	0.70	1.35	2.30	2.80
Low	0.64	1.32	2.15	2.12
# of Analysts	3	2	3	3
Year ago actual	0.77	1.37	2.53	-
EPS growth (year-over-year)	(13.85%)	(2.55%)	(12.38%)	10.83%



ANALYST RECOMMENDATIONS - PEOPLE ENERGY CP (PGL)

Recommendation History

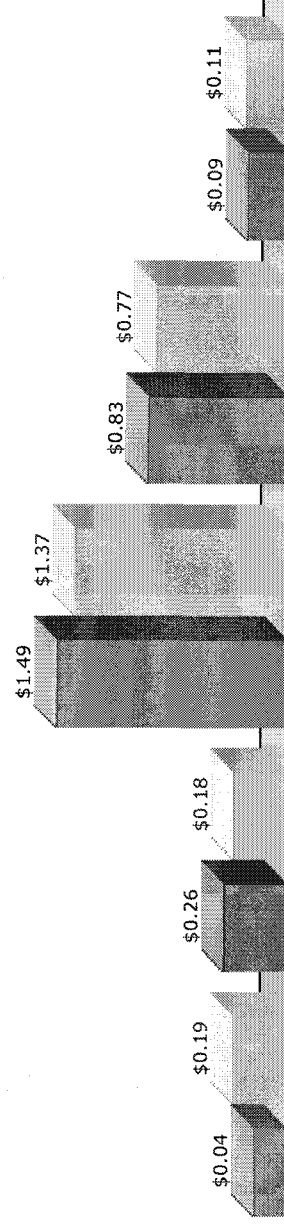
	Current	1-month	2-month	3-month	Number of brokers
Strong Buy	0	0	0	1	1
Buy	0	0	0	0	0

Current Recommendations

Mod Buy	0	0	0	0	0	Mod Buy	0	
Hold	4	4	4	3	3	Hold		4
Mod Sell	0	0	0	0	0	Mod Sell	0	
Strong Sell	1	1	1	1	1	Strong Sell	1	
Average Recommendation								
Consensus	3.33	3.33	3.33	3.33	3	Consensus	3.33	Strong Buy
1-Strong Buy, 5-Strong Sell								

EPS TRENDS / GROWTH**Consensus EPS Trend**

	This qtr Dec-05	Next qtr Mar-06	This yr Sep-06	Next yr Sep-07	Long Term	Earnings Growth Rate		
Current	0.66	1.34	2.22	2.46	3.50%	PGL	Last 5 years	Next 5 years
7 Days Ago	0.66	1.34	2.22	2.46	3.50%	UTIL-GAS DISTR	3.40%	4.90%
1 Month Ago	0.66	1.34	2.22	2.46	4.00%	S&P 500	4.20%	9.20%
2 Months Ago	0.64	1.41	2.23	-	4.00%		8.40%	13.30%
3 Months Ago	0.88	1.42	2.67	-	4.00%			17.50%

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Estimate	Actual	Estimate	Actual	Estimate	Actual
Sep-05	Sep-05	Jun-05	Jun-05	Mar-05	Mar-05

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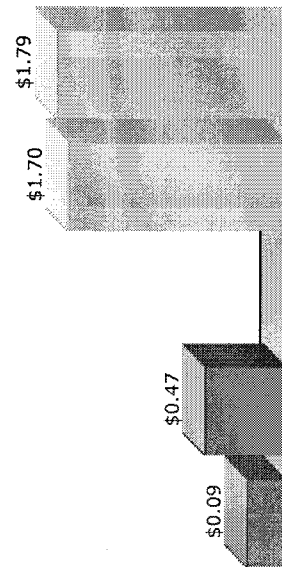
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EARNINGS PER SHARE (EPS) ESTIMATES - SOUTH JERSEY IN (SJI)

Analyst Estimates

	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06
Current Average Estimate	0.47	-	1.70	1.79
High	0.47	-	1.80	1.86
Low	0.47	-	1.57	1.70
# of Analysts	1	0	3	3
Year ago actual	0.51	0.96	1.52	-
EPS growth (year-over-year)	(7.84%)	-	11.26%	5.30%

Current Estimates



ANALYST RECOMMENDATIONS - SOUTH JERSEY IN (SJI)

Recommendation History

Current Recommendations

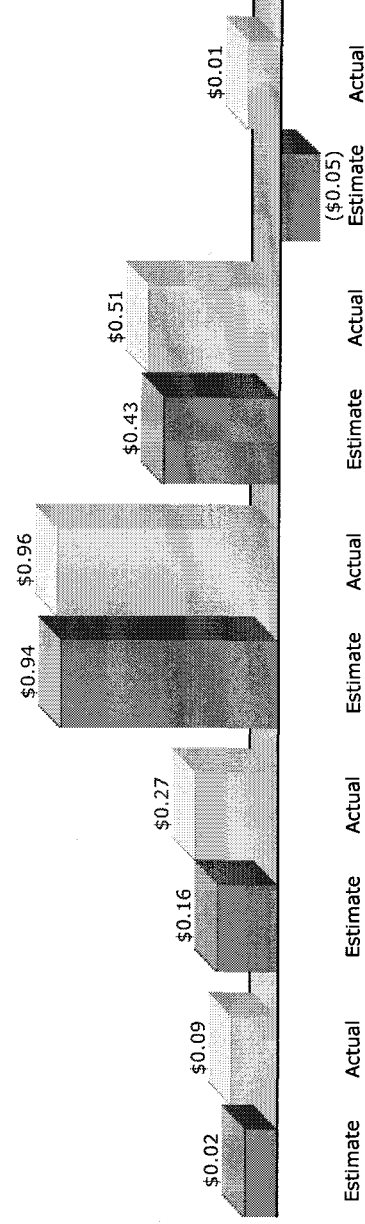
	Current	1-month	2-month	3-month	Number of brokers	
Strong Buy	0	0	0	0	Strong Buy	0
Mod Buy	1	1	1	1	Mod Buy	1
Hold	2	2	2	2	Hold	2
Mod Sell	0	0	0	0	Mod Sell	0
Strong Sell	0	0	0	0	Strong Sell	0
Average Recommendation						
Consensus	2.67	2.67	2.67	2.67	Consensus	2.67
1-Strong Buy, 5-Strong Sell						
					Strong Buy	Strong Sell

EPS TRENDS / GROWTH

Consensus EPS Trend

	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06	Long Term	Earnings Growth Rate		
Current	0.47	-	1.70	1.79	6.00%	SJI	6.60%	Next 5 years
7 Days Ago	0.47	-	1.70	1.79	6.00%	UTIL-GAS DISTR	4.20%	2.50%
1 Month Ago	0.47	-	1.68	1.79	6.00%	S&P 500	14.00%	9.20%
2 Months Ago	-	-	1.68	1.79	6.00%		(4.00%)	13.30%
3 Months Ago	-	-	1.68	1.79	6.00%			17.50%

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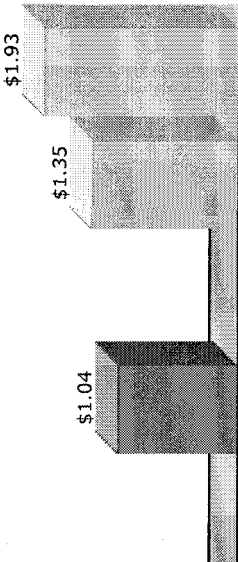
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Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - SOUTHWEST GAS (SWX)						
Analyst Estimates				Current Estimates		
	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06		
Current Average Estimate	1.04	-	1.35	1.93		
High	1.07	-	1.45	1.95		
Low	1.00	-	1.25	1.90		
# of Analysts	2	0	2	2		
Year ago actual	1.11	0.88	1.60	-		
EPS growth (year-over-year)	(6.76%)	-	(15.63%)	42.59%		
					This Actual Last qtr	Next year
					\$1.04	\$1.35
						\$1.93



ANALYST RECOMMENDATIONS - SOUTHWEST GAS (SWX)

Recommendation History

Current Recommendations

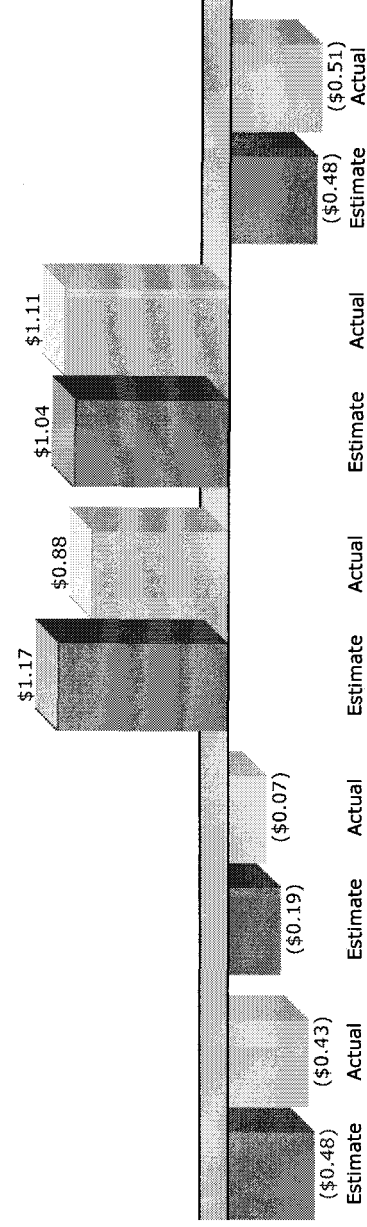
	Current	1-month	2-month	3-month	Number of brokers	
Strong Buy	0	0	0	0	Strong Buy	0
Mod Buy	0	0	0	0	Mod Buy	0
Hold	2	2	2	2	Hold	2
Mod Sell	0	0	0	0	Mod Sell	0
Strong Sell	0	0	0	0	Strong Sell	0
Average Recommendation						
Consensus	3	3	3	3	Consensus	3
1-Strong Buy, 5-Strong Sell						
					Strong Buy	Strong Sell

EPS TRENDS / GROWTH

Consensus EPS Trend

	This qtr Dec-05	Next qtr Mar-06	This yr Dec-05	Next yr Dec-06	Long Term	Earnings Growth Rate		
Current	1.04	-	1.35	1.93	6.00%	SWX	Last 5 years	Next 5 years
7 Days Ago	1.04	-	1.35	1.93	6.00%	UTIL-GAS DISTR	7.90%	4.50%
1 Month Ago	1.02	-	1.35	1.93	6.00%	S&P 500	4.20%	8.00%
2 Months Ago	1.05	-	1.35	1.93	6.00%		8.40%	13.30%
3 Months Ago	1.05	-	1.35	1.93	6.00%			17.50%

EARNINGS SURPRISE HISTORY





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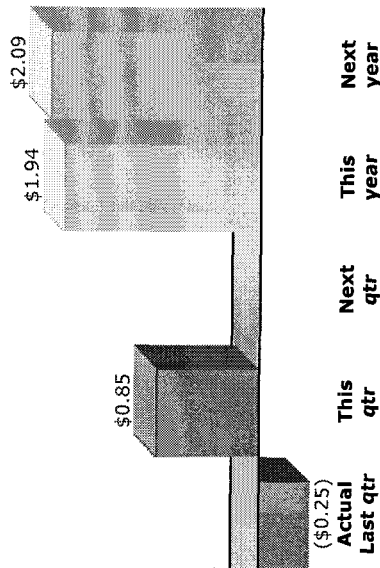
Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - WGL HLDGS INC (WGL)

Analyst Estimates

	This qtr Dec-05	Next qtr Mar-06	This yr Sep-06	Next yr Sep-07
Current Average Estimate	0.85	-	1.94	2.09
High	0.85	-	2.01	2.09
Low	0.85	-	1.80	2.09
# of Analysts	1	0	3	1
Year ago actual	0.88	1.53	1.99	-
EPS growth (year-over-year)	(3.41%)	-	(2.68%)	7.92%

Current Estimates



ANALYST RECOMMENDATIONS - WGL HLDGS INC (WGL)

Recommendation History

Current Recommendations

Number of brokers

3-month

2-month

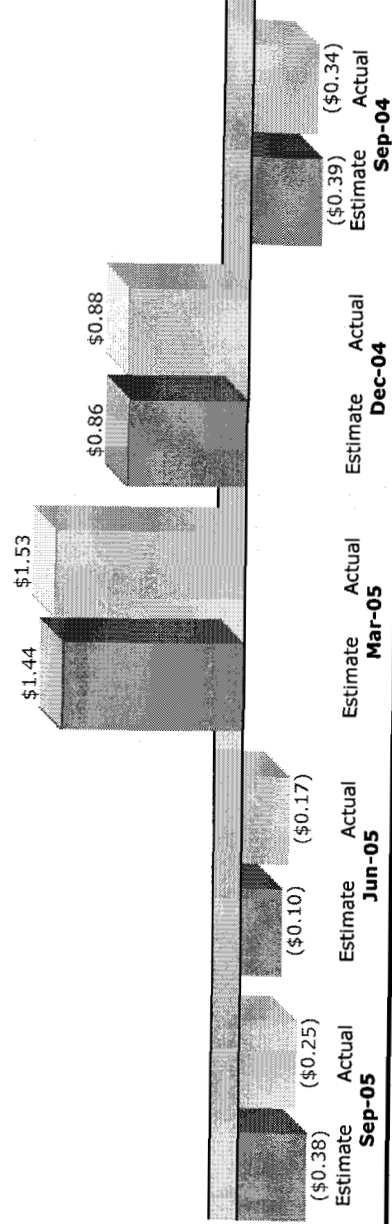
1-month

Current

Strong Buy	1	1	1	1	1	1	1	1
Mod Buy	0	0	0	0	0	0	0	0
Hold	3	5	5	5	5	5	5	3
Mod Sell	0	0	0	0	0	0	0	0
Strong Sell	1	1	1	1	1	1	1	1
Average Recommendation								
Consensus	3	3	3	3	3	3	3	3
1-Strong Buy, 5-Strong Sell								
							Strong Buy	Strong Sell

EPS TRENDS / GROWTH**Consensus EPS Trend**

	This qtr Dec-05	Next qtr Mar-06	This Yr Sep-06	Next Yr Sep-07	Long Term	Earnings Growth Rate		
Current	0.85	-	1.94	2.09	4.00%	WGL	Last 5 years	Next 5 years
7 Days Ago	0.88	1.62	1.97	2.05	3.75%	UTIL-GAS DISTR	2.50%	5.30%
1 Month Ago	0.88	1.62	1.97	2.05	3.75%	S&P 500	4.20%	8.00%
2 Months Ago	0.89	1.62	1.97	2.05	3.80%		8.40%	17.50%
3 Months Ago	0.90	1.66	1.97	2.10	4.00%			

EARNINGS SURPRISE HISTORY

ATTACHMENT D

Infrastructure costs in the Water Utility Industry will continue to rise over the long term. Larger companies will acquire smaller ones in an effort to achieve economies of scale.

Foreign companies had been buying a number of U.S. water utilities, but that trend appears to be waning.

Water utility stocks are ranked to underperform the market over the coming 12 months; however, conservative investors can find attractive risk-adjusted choices here.

The Need For Consolidation

Long-term trends in the Water Utility Industry indicate that infrastructure costs will steadily rise. Many of the facilities and pipes that now purify and transport drinking water were built about 100 years ago. Ongoing upgrading and replacement are necessary for these old systems to remain in compliance with rules laid out by the Environmental Protection Agency (EPA). The cost of fixing and upgrading these systems is significantly higher than in the past (even adjusting for inflation) because more-expensive materials need to be used for modern construction. Moreover, transportation costs are much higher and should continue to rise, as nearby sources of water are depleted and farther-away bodies of water must be used. Water is quite difficult and expensive to move because it is heavy and cannot be compressed. Also adding to industry costs is the ongoing issuance of guidelines from the EPA that typically require water utilities to comply with more-stringent water-purity standards. Industry sources estimate that about \$140 billion will be needed over the next 20 years to fund necessary water-system infrastructure improvements.

Small and mid-sized water companies usually welcome large-scale suitors. Smaller utilities generally lack the funds needed for long-term structural improvements, and might risk being out of compliance with local and federal laws at some point down the road. In an effort to prevent this unpleasant scenario from happening, many of these smaller companies welcome larger utilities that have the capital resources to remain in compliance with the law. The larger company gains greater geographic diversity from its acquisitions, which helps lessen its susceptibility to weather fluctuations that might cause volatility in earnings. Acquirers also benefit from economies of scale in which costs are

INDUSTRY TIMELINESS: 81 (of 92)

generally reduced. Too, the regulatory-intensive nature of the Water Utility Industry means that some specific local governments might be more uncooperative with the utilities than other comparable local officials. A larger territory lessens the impact of a particularly onerous regulatory atmosphere.

Acquisition Update

Foreign companies have purchased a large number of domestic water utilities over the past year. These global water companies are attracted to this country's relatively safe political climate and its trend towards the privatization of municipal water and wastewater systems. Currently, there is concern among investors that the large premiums paid for U.S. takeover targets, which approached three times book value, will become more infrequent. British utilities are having regulatory difficulties at home that stand to weaken their designs on the U.S. market. Consequently, there appear to be fewer bidders in the market.

SDWA Regulations

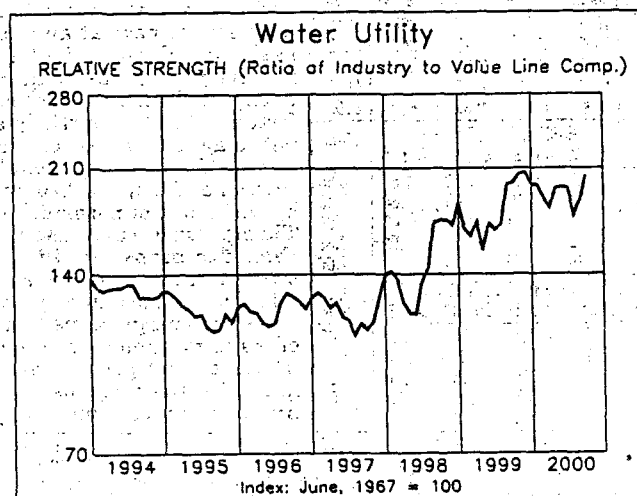
The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorized the EPA to work with state and local governments to test for five potential impurities in drinking water every five years. The EPA mandates what levels of a certain contaminant is acceptable per a specified amount of water. Water utilities typically spend about 15% to 50% of their annual capital outlays in efforts to comply with SDWA guidelines. These companies must also stay in compliance with the Clean Water Act, and numerous state and local laws. At present, the EPA is considering lowering the allowable level of arsenic in drinking water from 50 parts per billion (ppb) to 5 ppb. This measure would be controversial because it would be lower than the standard of the World Health Organization (10 ppb) and would potentially cost domestic water companies billions of dollars.

Investment Advice

Most of the water utility stocks that are covered in this review are not timely for the coming six to 12 months. Nonetheless, favorable Safety ranks among the group make some of these issues appealing for risk-averse investors seeking decent dividend yields.

Joseph Espallat

Composite Statistics: Water Utility Industry							
1996	1997	1998	1999	2000	2001		03-05
1793.9	1924.7	1994.2	2422.6	2550	2750	Revenues (\$mill)	3500
214.4	29.2	265.6	295.3	315	335	Net Profit (\$mill)	415
39.2%	37.8%	37.0%	38.2%	39.0%	39.0%	Income Tax Rate	39.0%
7.0%	6.3%	7.5%	8.7%	6.0%	6.0%	AFUDC % to Net Profit	6.0%
55.7%	56.6%	56.9%	55.9%	53.0%	52.0%	Long-Term Debt Ratio	50.0%
40.0%	39.6%	39.7%	42.0%	45.0%	46.0%	Common Equity Ratio	48.0%
5271.8	5703.3	6188.6	7223.7	7300	7900	Total Capital (\$mill)	9300
6377.2	6785.5	7361.9	8961.3	8700	9300	Net Plant (\$mill)	9700
6.0%	6.2%	6.2%	6.0%	6.5%	7.0%	Return on Total Cap'l	7.5%
9.2%	9.7%	10.0%	9.3%	10.5%	10.5%	Return on Shr. Equity	11.5%
9.7%	10.2%	10.4%	9.5%	11.0%	11.0%	Return on Com Equity	12.0%
3.3%	3.6%	3.9%	3.2%	3.5%	3.5%	Retained to Com Eq	4.5%
68%	66%	64%	67%	70%	70%	All Div'ds to Net Prof	60%
14.5	15.8	18.3	20.2	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	13.0
.91	.91	.95	1.15			Relative P/E Ratio	.85
4.6%	4.1%	3.4%	3.3%			Avg Ann'l Div'd Yield	5.0%



The events of September 11th have altered many priorities in the Water Utility Industry.

Long-term trends in the industry indicate that the cost of maintaining and upgrading water/wastewater systems will rise. The industry is consolidating, with larger companies acquiring smaller operators to achieve economies of scale.

Water Utility stocks are ranked to underperform the year-ahead market, though some of these issues offer conservative investors appealing risk-adjusted, total-return potential.

Security Issues

In response to the events of September 11th, the need to secure water systems against terrorism has become a top priority for regulators and water utilities alike, pushing many other legislative issues to the side. The FBI has stated that water companies should be on alert for potential threats in the months ahead. Many water companies are already heeding this warning, and incurring additional costs in the process that may limit near-term bottom-line growth. Also, the industry and regulators are working together to provide approximately \$5 billion in federal funds for immediate infrastructure improvements as part of the pending economic stimulus legislation.

Industry Consolidation

Infrastructure costs in the Water Utility Industry will likely rise dramatically over the next 20 years. These companies have to maintain and upgrade their systems continually in order to remain in compliance with increasingly stringent rules issued by the Environmental Protection Agency (EPA) and local regulators. Many of the facilities and pipes that now treat and transport drinking water were built about a century ago. The costs of replacing those systems are significantly higher these days, even adjusting for inflation. Adding to the cost is the fact that nearby bodies of water tend to get depleted and expensive to use, so more distant sources of water must be brought in to keep up with increasing demand for purified water. Water is difficult and costly to transport, since it is heavy and incompressible. All in all, industry sources estimate that over \$140 billion will be needed to upgrade the nation's water-distribution system over the next 20 years.

The costs of staying in compliance with drinking water laws are especially onerous for smaller regional opera-

INDUSTRY TIMELINESS: 85 (of 97)

tors, since they have a limited base of customers over which to spread these costs. Small and mid-sized utilities generally welcome takeover offers from larger acquirers because of their superior capital resources. The acquiring utility attempts to achieve economies of scale through the transactions. Also, it gains greater geographic diversity, and that can reduce its susceptibility to unfavorable weather patterns and potentially burdensome local regulators.

Large-scale foreign acquirers have been very interested in purchasing domestic water utilities over the past few years, and the latest evidence is the generous takeover offer RWE AG made for *American Water Works*, the nation's largest public water company. RWE, a Germany-based firm, stands to gain cost synergies in the deal, along with geographic diversity in a politically stable country. Foreign utilities have been fascinated with the risk-adjusted earnings potential of U.S. water companies, and they are likely to continue their buying spree over the next few years. As such, the number of investor-owned water providers with large territories is steadily dwindling. This development gives additional hope to those U.S. water utilities and investors looking for substantial buyout offers.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorizes the EPA to work with state and local governments to test for five potential impurities in drinking water every five years. The EPA mandates what levels of a certain contaminant is acceptable per a specified amount of water. Water utilities usually spend a significant portion of their annual capital budgets on efforts to stay in compliance with SDWA guidelines. These companies must also comply with the Clean Water Act, and numerous state and local laws.

Investment Advice

The Water Utility stocks in this review are not timely for investment over the next six to 12 months. Nonetheless, a few of these issues possess favorable Safety ranks and solid dividend-growth prospects that may appeal to conservative investors.

Joseph Espallat

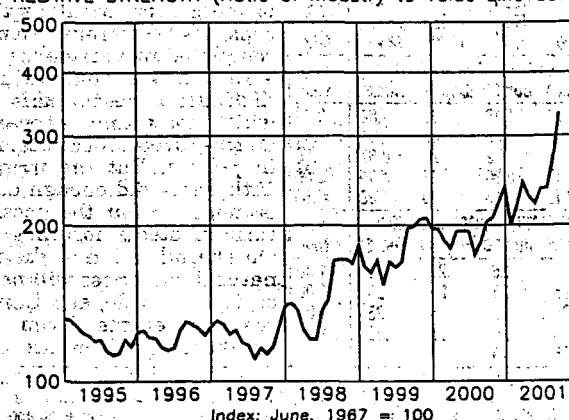
Composite Statistics: Water Utility Industry

1997	1998	1999	2000	2001	2002	04-06
1439.5	1503.1	1898.0	2054.9	2210	2315	2895
183.2	192.9	232.8	254.2	270	295	410
38.4%	39.1%	39.7%	40.1%	40.0%	40.0%	40.0%
6.4%	7.9%	9.6%	5.5%	6.5%	6.5%	7.5%
57.3%	58.0%	56.2%	54.9%	54.5%	54.0%	53.0%
40.0%	39.7%	41.3%	44.0%	44.5%	45.0%	46.0%
4113.2	4524.6	5568.3	5654.6	6055	6335	7495
5069.2	5544.7	7039.7	7545.4	7975	8425	9935
6.5%	6.3%	6.2%	6.6%	6.0%	6.0%	6.5%
10.4%	10.2%	9.6%	9.8%	10.5%	11.0%	11.5%
10.9%	10.5%	9.8%	9.9%	10.5%	11.0%	11.5%
4.7%	4.4%	4.1%	4.0%	4.5%	4.5%	5.0%
57%	59%	59%	61%	60%	59%	52%
15.2	19.4	19.2	16.3			13.5
.88	1.01	1.09	1.08			.90
3.7%	3.0%	3.0%	3.7%			3.0%

Bold figures are
Value Line
estimates

Water Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



Infrastructure costs in the Water Utility Industry will rise considerably over the coming 20 years. Consequently, larger companies are buying smaller ones in an attempt to achieve economies of scale.

Water utility stocks are ranked to perform in the middle of the pack over the coming 12 months. Nonetheless, conservative investors can find above-average Safety ranks and attractive dividends in the group.

Industry Consolidation

Infrastructure costs in the water utility industry will likely soar over the next two decades. These companies must constantly repair and upgrade their existing water/wastewater systems in order to comply with increasingly strict rules issued by the Environmental Protection Agency (EPA) and local regulators. Many of the facilities and pipes that transport water were constructed over 100 years ago. The costs of replacing these systems is considerably higher now than it was in the past, even adjusting for inflation. Too, the ongoing depletion of nearby sources of water forces many water utilities to obtain water from more-distant, more-expensive sources. Water is difficult and costly to transport because it is heavy and incompressible. Nonetheless, utilities must continue to keep pace with rising demand for drinking water from growing residential and industrial customers. Recent estimates are that it will cost hundreds of billions of dollars to replace and upgrade failing water infrastructures over the next 20 years. This amounts to more than the entire current assets of the water industry in America. Much of these costs will likely be financed by federal spending and higher water rates. Nevertheless, water utilities are going to have to ante up much higher capital investments over the coming years.

The costs of staying in compliance with drinking water laws are especially onerous for smaller regional companies because they have fewer customers over which to spread their costs. Small and mid-sized water utilities tend to welcome takeover offers from larger, better-capitalized companies so that they can utilize the bigger firm's superior resources. For instance, the EPA's new rules on the allowable levels of arsenic in drinking water (10 parts per billion by January, 2006) is compelling some smaller utilities to merge with larger ones in an effort to remain in compliance with the new standards. By purchasing these smaller entities, large utilities seek

INDUSTRY TIMELINESS: 54 (of 98)

to achieve economies of scale. Also, a bigger company gains greater geographic diversity that can reduce its susceptibility to unfavorable weather patterns and potentially burdensome local regulators. For example, the regulatory climate in California has been extra costly for utilities in the past couple of years, so companies, such as *California Water*, have been actively looking for acquisition targets outside of the state. On a positive note, the passage of a new law in California will allow water utilities to charge higher rates to customers (subject to refund) if regulators do not render decisions on rate cases within established processing periods. This ought to improve revenues for three out of four companies in this review.

Recent Challenges

The events of September 11, 2001 have introduced a whole new set of challenges for the industry. Companies have been spending a lot of time, energy, and money on making sure that their water systems are reasonably secure from potential terrorist attacks. Utilities have turned to local and federal regulators for reimbursement and additional funding, but the amount and timing of future funds is uncertain. Also, insurance costs have soared in the past year, as insurers are now more reluctant to cover companies, like water utilities, that can potentially have catastrophic losses.

SDWA Regulations

The Safe Drinking Water Act (SDWA) of 1974 (amended in 1996) authorizes the EPA to work with state and local governments to test for potential impurities in drinking water. The EPA mandates what particular level of a certain contaminant is acceptable per a specified amount of water. Water utilities routinely spend large portions of their annual capital expenditures on efforts to remain in compliance with SDWA guidelines. These companies must also comply with the 1972 Clean Water Act, and numerous other state and local laws, another costly endeavor.

Decent Grounds For Conservative Investors

The water-utility stocks in this review are unlikely to outperform the year-ahead market. Nonetheless, they offer above-average Safety ranks, attractive dividend yields, and decent risk-adjusted total-return potential.

Joseph Espallat

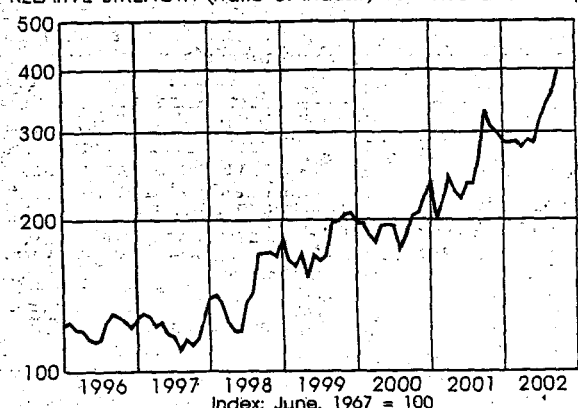
Composite Statistics: Water Utility Industry

1998	1999	2000	2001	2002	2003		05-07
1503.1	1898.0	2054.9	2190.5	2495	2710	Revenues (\$mill)	3360
192.9	232.8	249.7	261.8	275	315	Net Profit (\$mill)	465
39.1%	39.7%	40.1%	39.5%	41.5%	40.0%	Income Tax Rate	40.0%
7.9%	9.6%	5.5%	3.4%	2.0%	2.0%	AFUDC % to Net Profit	3.0%
58.0%	56.2%	54.9%	56.7%	57.0%	56.0%	Long-Term Debt Ratio	52.5%
39.6%	41.9%	44.0%	42.4%	42.0%	43.0%	Common Equity Ratio	47.0%
4524.6	5566.3	5654.6	6198.1	7005	7085	Total Capital (\$mill)	8780
5544.7	7039.7	7545.4	7991.2	9210	9940	Net Plant (\$mill)	12085
6.3%	6.2%	6.8%	6.3%	6.0%	6.5%	Return on Total Cap'l	7.0%
10.2%	9.6%	9.8%	9.8%	10.0%	10.5%	Return on Shr. Equity	11.5%
10.5%	9.8%	9.9%	9.9%	10.0%	10.5%	Return on Com Equity	11.5%
4.4%	4.1%	4.0%	3.9%	3.0%	4.5%	Retained to Com Eq	6.0%
59%	59%	60%	61%	61%	58%	All Div'ds to Net Prof	47%
19.4	19.2	16.3	20.9			Avg Ann'l P/E Ratio	13.5
1.01	1.09	1.06	1.07			Relative P/E Ratio	.90
3.0%	3.0%	3.7%	2.9%			Avg Ann'l Div'd Yield	3.0%

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Water Utility

RELATIVE STRENGTH (Ratio of Industry to Value Line Comp.)



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The Water Utility Industry's consolidation continues to gain momentum, as industry leaders look for opportunities to buy out smaller companies that are struggling to keep up with escalating infrastructure costs and heightened regulatory requirements.

Water Utility stocks are unlikely to outperform the broad market for the year ahead. With that said, however, some of these issues offer conservative investors attractive risk-adjusted, total-return potential.

Government Regulations

In order to keep water supplies safe, national purification standards have been established that the water industry is required to meet. Amended in 1996, the Safe Drinking Water Act (SDWA) of 1974 authorizes the Environmental Protection Agency (EPA) to work with state and local governments to periodically test for impurities in drinking water and regulate the levels of contaminants that are acceptable per a specified amount of water. These standards take into account the health effects of chemicals, measurement capabilities, and technical feasibility. One of the most significant contaminants that the industry screens for is arsenic, a naturally occurring substance. However, the EPA is in the process of lowering the tolerated amount of arsenic to 10 parts per billion from 20 parts currently. The change is expected to be in effect by January, 2006. Large chunks of water utilities' annual capital budgets are already spent on infrastructure maintenance and improvements in order to stay in compliance with the SDWA, the Clean Water Act, and numerous state and local laws. This percentage is likely to climb even higher, as fears of terrorism have prompted officials to further tighten regulation requirements.

Rising Infrastructure Costs

Along with the necessity to remain in compliance with increasingly strict water purity standards, water companies are also being pressured to continually upgrade aging facilities. Many of the water/wastewater systems that are presently in use were built over 100 years ago and are growing outdated. The costs associated with replacing these systems are dramatically higher now than when they initially were put in place. The EPA and other industry sources indicate that hundreds of billions

INDUSTRY TIMELINESS: 97 (of 98)

of dollars over the next 20 years will be needed to repair the nation's entire water system. The Water Infrastructure Network believes that there will be a \$12 billion annual shortfall for wastewater infrastructure over that period, and long-term help from the federal government is needed to solve the problem. Water companies will most likely foot the majority of the bill, though, as budget deficits at state and local levels will limit funds dedicated to the industry.

Industry Consolidation

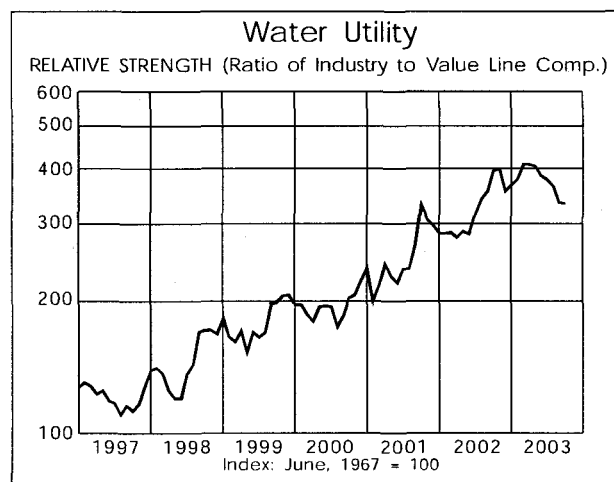
With the costs of meeting safe drinking water guidelines on the rise, many smaller companies lack the funds to commit to long-term structural improvements. As such, these smaller water companies have been increasingly willing to accept takeover offers from larger suitors with significantly greater capital resources. The larger utilities benefit from economies of scale, which enables them to reduce overhead. In addition, the acquisitions usually enhance geographic diversity, reducing a company's vulnerability to weather fluctuations. Then, too, a multistate territory helps to alleviate a company's exposure to especially onerous regulatory atmospheres. Large foreign utilities have been particularly active in recent years, swallowing up domestic water companies in an effort to gain exposure to the United States' steady population growth.

Investment Advice

None of the stocks under review are timely at this juncture, as poor weather conditions have resulted in inconsistent earnings patterns. Although *Philadelphia Suburban*, *California Water Services Group*, and *American States Water* all have below-average total-return potential out to 2006-2008, income-oriented investors might find one of these stocks attractive, given their favorable risk profile. Income-bearing stocks have gained some additional popularity of late, because of the recent federal tax bill that reduced the top rate investors pay on dividend income to 15%. As usual, though, we recommend that potential investors carefully review individual reports before making any new commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry							
1999	2000	2001	2002	2003	2004		06-08
637.2	704.3	751.8	794.4	845	950	Revenues (\$mill)	1185
72.4	90.9	95.4	106.6	105	130	Net Profit (\$mill)	190
40.0%	41.2%	40.2%	38.8%	39.0%	39.5%	Income Tax Rate	40.0%
--	--	--	--	Nil	.5%	AFUDC % to Net Profit	.5%
51.1%	50.3%	52.4%	53.9%	53.0%	51.5%	Long-Term Debt Ratio	51.0%
48.3%	49.3%	47.2%	45.9%	46.5%	48.5%	Common Equity Ratio	49.0%
1444.7	1661.0	1840.7	1973.6	2250	2425	Total Capital (\$mill)	3050
2100.3	2342.5	2532.3	2751.1	3025	3225	Net Plant (\$mill)	3950
7.4%	7.0%	6.8%	7.0%	6.5%	7.0%	Return on Total Cap'l	7.5%
11.5%	10.7%	10.6%	11.2%	10.0%	10.5%	Return on Shr. Equity	12.0%
11.5%	10.8%	10.7%	11.2%	10.0%	11.0%	Return on Com Equity	12.0%
3.8%	3.6%	3.3%	3.9%	3.0%	4.0%	Retained to Com Eq	5.5%
68%	67%	69%	66%	75%	65%	All Div'ds to Net Prof	54%
19.5	18.6	22.6	21.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	13.5
1.11	1.21	1.16	1.17			Relative P/E Ratio	.90
3.5%	3.6%	3.1%	3.1%			Avg Ann'l Div'd Yield	3.0%



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The Water Utility industry continues to rank near the bottom of the *Value Line* investment universe. Infrastructure costs will limit earnings for at least the near future, as the high expenses associated with maintaining and improving the country's water-distribution systems continue to rise.

However, it appears that relief is on the way for some companies. Favorable regulatory rate case rulings have been handed down across the country and look as though they might become the norm.

Meanwhile, consolidation remains the name of the game. Although many of the industry's smaller players lack the capital requirements to meet growing government regulations, larger companies are using the consolidation as way to boost profitability via growing its customer base.

Infrastructure Costs

Infrastructure costs continue to climb higher as water utility companies, with little help from strapped government branches, are forced to deal with maintaining and upgrading existing facilities. Costs are becoming an even greater concern as time passes because a number of the functioning systems currently in place are over 100 years old and in need of significant repair. That said, we believe that it will take hundreds of billions of dollars to renovate existing pipelines over the next few decades. To make matters worse, the costs of staying in compliance with regulatory laws are growing even more difficult, due to fears of terrorist activities against the country's drinking supplies. Although the Safe Drinking Water Act (SDWA) of 1974 remains the authority for the safety and purity of drinking water, recent amendments are making compliance even more demanding. In 1996, an amendment authorized the Environmental Protection Agency (EPA) to step up local compliance levels. And, governing law-makers now insist that the EPA work with local and state governments to test for impurities in drinking water and to regulate the levels of contaminants that are acceptable.

A Buying Opportunity

The growing regulations and costs associated with staying in compliance with government standards re-

INDUSTRY TIMELINESS: 94 (of 98)

lated to the quality and purification of drinking water is forcing many of the smaller water companies to look to larger suitors. Bigger companies with the market scale to withstand the current onslaught of costs are clearly taking advantage of this situation. Indeed, these firms are growing their businesses at relatively low costs as well as diversifying their operations into less regulated and more-rapidly developing areas of the U.S. *Aqua America* is a perfect example, making nearly 20 acquisitions since the close of last year. *Aqua* recently purchased a number of Pennsylvania-based companies in order to help drive top-line growth. We anticipate that the current consolidation theme will persist, as we expect restructuring costs to continue to rise.

Regulatory Assistance

Although water utility company's have been forced to deal with lethargic case rulings in the past couple of years, some governing bodies are picking up the pace. In California, for example, the California Public Utilities Commission (CPUC) has handed down a number of favorable rate-relief rulings in recent months, and more are expected. With the California electric crisis seemingly in the rearview mirror, the current administration seems intent on delivering more timely assessments. *American States Water Company* and *California Water Service Group* have both seen profits benefit from recent case rulings over the past quarter.

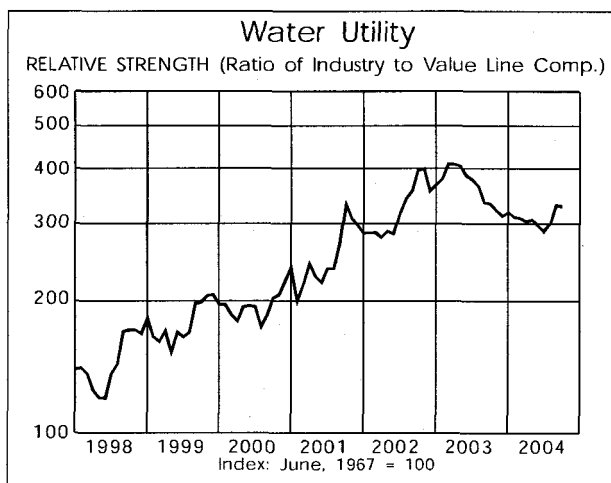
Investment Advice

Most investors will want to take a pass on the stocks covered in the next few pages, as they offer uninspiring returns out to decade's end. In addition, not one of the stocks in this edition is ranked to outperform the market in the next six to 12 months. Nonetheless, income-oriented investors may like the industry's solid dividend yields. *California Water* may have some added appeal for the risk-averse, given its above average Safety rank. Still, we advise that potential investors carefully review the individual reports in the ensuing pages before making a commitment to any of the stocks mentioned above.

Andre J. Costanza

Composite Statistics: Water Utility Industry									
2000	2001	2002	2003	2004	2005				07-09
704.3	751.8	794.4	857.0	990	1075	Revenues (\$mill)			1345
90.9	95.4	106.6	98.6	130	150	Net Profit (\$mill)			205
41.2%	40.2%	38.8%	40.0%	40.0%	40.0%	Income Tax Rate			40.0%
-	-	-	-	Nil	Nil	AFUDC % to Net Profit			Nil
50.3%	52.4%	53.9%	51.2%	51.0%	51.0%	Long-Term Debt Ratio			50.0%
49.3%	47.2%	45.9%	48.6%	49.0%	49.0%	Common Equity Ratio			50.0%
1661.0	1840.7	1973.6	2296.4	2615	2870	Total Capital (\$mill)			3550
2342.5	2532.2	2751.1	3186.1	3400	3605	Net Plant (\$mill)			4150
7.0%	6.8%	7.0%	5.9%	6.5%	7.0%	Return on Total Cap'l			7.0%
10.7%	10.6%	11.2%	8.8%	9.5%	9.5%	Return on Shr. Equity			10.0%
10.8%	10.7%	11.2%	8.8%	9.5%	9.5%	Return on Com Equity			10.0%
3.6%	3.3%	3.8%	2.5%	3.5%	4.0%	Retained to Com Eq			4.5%
67%	69%	66%	72%	62%	58%	All Div'ds to Net Prof			52%
18.6	22.6	21.5	26.0			Avg Ann'l P/E Ratio			18.0
1.21	1.16	1.17	1.49			Relative P/E Ratio			1.20
3.6%	3.1%	3.1%	2.8%			Avg Ann'l Div'd Yield			3.5%

Bold figures are
Value Line
estimates



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After showing some brief signs of a turnaround last year, the Water Utility Industry appears to have reverted back to its old ways. Feeling the effects of uncooperating weather conditions and high infrastructure costs, the stocks in this industry have had trouble meeting earnings expectations and, as a result, have sorely underperformed the broader market in recent months. In fact, none of the water utility stocks that are covered in the next few pages are ranked better than 3 (Average) for Timeliness, based on our momentum based ranking system. As a whole, the industry ranks near the bottom of the Value Line investment universe.

And the future does not look much brighter. Although a more favorable regulatory landscape and normalized weather conditions ought to provide a better landscape, we are concerned that rapidly growing infrastructure costs will continue to undermine this group's earnings out to late decade.

Easing Tensions

Although designed to keep a balance of power between consumers and providers, regulatory authorities, have long been a thorn in the side of water utility companies. Rate relief case decisions had often been unfavorable and untimely, with some rulings being pushed off for as long as two years. But, it finally looks as though things are taking a turn for the better, especially in the state of California. The California Public Utilities Commission (CPUC), which is responsible for ruling on general rate case requests in the Golden State, has been handing down more-favorable and timely decisions in recent months, thanks, in part, to the efforts of Governor Schwarzenegger. He has replaced members thought to be antagonists of rate relief with more-business-friendly members, and additional moves may be in the works. The recent changes makes for a favorable backdrop for water utility companies operating in California, such as *American States Water Co.* and *California Water Service Group*.

Costs

But, while regulators are easing their stance on rate case decisions, this does not look to be the case for infrastructure demands. Many of the current infrastruc-

INDUSTRY TIMELINESS: 93 (of 98)

tures are upwards of 100 years old and are in severe need of maintenance and, in some cases, massive renovations and rebuilding. And, given the geopolitical volatility worldwide and the heightened threat of bioterrorism on U.S. water pipelines and reservoirs, these costs are likely to continue to only rise, as companies strive to comply with EPA water purification standards. Infrastructure repair costs are expected to climb in the hundreds of millions of dollars over the next two decades, putting many smaller water companies at a distinct disadvantage. With a dearth of resources to fund these improvements, many such companies are being forced to sell. But, given the current landscape, larger companies with the flexibility and capital to deal with the higher costs are utilizing the weakness to add additional legs of growth to their businesses. *Aqua America*, the largest water utility in our survey, for example, has made more than 90 acquisitions in the past five years, doubling its revenue base during that time. The company does not seem to be slowing its aggressive spending ways and has the highest return on equity of any of the stocks that we cover here.

Investment Advice

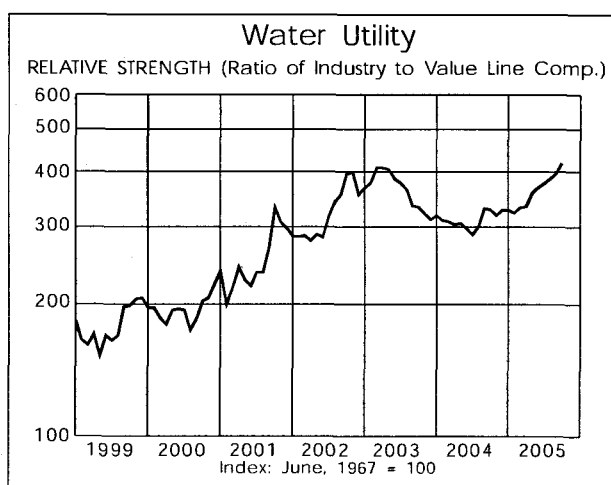
Most investors will probably want to take a pass on the stocks in this industry. Typically market laggards, not one of the issues covered in the next few pages stands out for near-term or long-term capital gains potential. The limited financial resources of most of these companies, along with the capital-intensive nature of the industry, will probably limit any substantial growth out to late decade.

Those seeking to add an income component to their portfolio may find an attractive option here, though. Each of the stocks in this industry carries an above-average dividend yield, with *American States Water* and *California Water* offering the highest percentages. *California Water* offers some additional appeal, as it has a 2 (Above Average) Safety rank. As is always the case, we recommend that all potential investors take a more in depth look at the individual reports on the following pages before considering making any future financial commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry									
2001	2002	2003	2004	2005	2006				08-10
751.8	794.4	857.0	985.6	1250	1350	Revenues (\$mill)			1725
95.4	106.6	98.6	122.4	155	170	Net Profit (\$mill)			235
40.2%	38.8%	40.0%	39.4%	39.5%	39.5%	Income Tax Rate			39.5%
--	--	--	--	Nil	Nil	AFUDC % to Net Profit			Nil
52.4%	53.9%	51.2%	50.0%	52.0%	51.0%	Long-Term Debt Ratio			48.0%
47.2%	45.9%	48.6%	50.0%	48.0%	49.0%	Common Equity Ratio			52.0%
1840.7	1973.6	2296.4	2543.6	3000	3400	Total Capital (\$mill)			4100
2532.2	2751.1	3186.1	3532.5	4050	4250	Net Plant (\$mill)			5000
6.8%	7.0%	5.9%	6.7%	7.0%	7.5%	Return on Total Cap'l			7.0%
10.6%	11.2%	8.8%	10.7%	11.0%	11.0%	Return on Shr. Equity			11.5%
10.7%	11.2%	8.8%	10.7%	11.0%	11.0%	Return on Com Equity			11.5%
3.3%	3.8%	2.5%	4.6%	5.0%	5.0%	Retained to Com Eq			3.0%
69%	66%	72%	57%	60%	55%	All Div'ds to Net Prof			45%
22.6	21.5	26.0	25.5			Avg Ann'l P/E Ratio			18.0
1.16	1.17	1.48	1.36			Relative P/E Ratio			1.20
3.1%	3.1%	2.8%	2.2%			Avg Ann'l Div'd Yield			3.4%

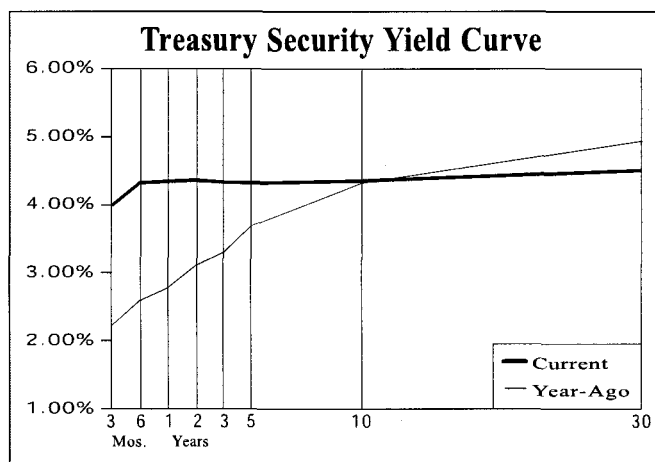
Bold figures are
Value Line
estimates



ATTACHMENT E

Selected Yields

	Recent (12/29/05)	3 Months Ago (9/29/05)	Year Ago (12/29/04)		Recent (12/29/05)	3 Months Ago (9/29/05)	Year Ago (12/29/04)
TAXABLE							
Market Rates							
Discount Rate	5.25	4.75	3.25				
Fed Funds (Target)	4.25	3.75	2.25				
Prime Rate	7.25	6.75	5.25				
30-day CP (A1/P1)	4.27	3.76	2.30				
3-month LIBOR	4.53	4.05	2.56				
Bank CDs							
6-month	2.86	2.21	1.65				
1-year	3.39	2.66	1.96				
5-year	3.97	3.45	3.45				
U.S. Treasury Securities							
3-month	3.99	3.53	2.22				
6-month	4.32	3.88	2.59				
1-year	4.34	3.95	2.77				
5-year	4.32	4.15	3.69				
10-year	4.35	4.30	4.32				
10-year (inflation-protected)	2.07	1.75	1.68				
30-year	4.51	4.55	4.94				
30-year Zero	4.46	4.54	5.05				
Mortgage-Backed Securities							
GNMA 6.5%	5.36	5.20	4.49				
FHLMC 6.5% (Gold)	5.83	5.57	4.28				
FNMA 6.5%	5.75	5.20	4.25				
FNMA ARM	4.25	3.85	3.00				
Corporate Bonds							
Financial (10-year) A	5.31	5.15	5.24				
Industrial (25/30-year) A	5.51	5.46	5.59				
Utility (25/30-year) A	5.53	5.45	5.57				
Utility (25/30-year) Baa/BBB	5.91	5.79	6.03				
Foreign Bonds (10-Year)							
Canada	3.96	3.97	4.40				
Germany	3.33	3.16	3.71				
Japan	1.51	1.49	1.43				
United Kingdom	4.12	4.27	4.58				
Preferred Stocks							
Utility A	7.10	7.06	6.76				
Financial A	6.21	6.17	5.97				
Financial Adjustable A	5.48	5.48	N/A				



TAX-EXEMPT

Bond Buyer Indexes							
20-Bond Index (GOs)	4.38	4.39	4.44				
25-Bond Index (Revs)	5.11	5.04	5.00				
General Obligation Bonds (GOs)							
1-year Aaa	3.20	2.84	2.05				
1-year A	3.32	2.96	2.17				
5-year Aaa	3.38	3.21	2.72				
5-year A	3.66	3.49	2.95				
10-year Aaa	3.76	3.71	3.57				
10-year A	4.08	4.06	3.87				
25/30-year Aaa	4.39	4.42	4.67				
25/30-year A	4.66	4.67	4.88				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.53	4.49	4.80				
Electric AA	4.55	4.60	4.78				
Housing AA	4.76	4.63	5.05				
Hospital AA	4.89	4.63	5.10				
Toll Road Aaa	4.59	4.60	4.93				

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	12/21/05	12/7/05	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1746	1634	112	1892	1800	1748
Borrowed Reserves	259	95	164	229	293	193
Net Free/Borrowed Reserves	1487	1539	-52	1663	1507	1554

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	12/19/05	12/12/05	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1365.0	1359.2	5.8	2.0%	-2.1%	-0.5%
M2 (M1+savings+small time deposits)	6691.3	6671.2	20.1	5.7%	5.3%	3.9%
M3 (M2+large time deposits)	10183.7	10148.0	35.7	8.7%	9.3%	7.9%

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
DOCKET NO. W-01303A-05-0405

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ARIZONA-AMERICAN WATER COMPANY
 PARADISE VALLEY DISTRICT
 TEST YEAR ENDED DECEMBER 10, 2004
 COST OF CAPITAL SUMMARY

DOCKET NO. W-01303A-05-0405
 SCHEDULE WAR - 1, PAGE 1 OF 2

WEIGHTED COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITALIZATION PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED CAPITALIZATION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	DEBT	\$ 198,791,428	\$ -	\$ 198,791,428	63.30%	5.42%	3.43%
2	PREFERRED STOCK	-	-	-	0.00%	0.00%	0.00%
3	COMMON EQUITY	115,410,356	-	115,410,356	36.70%	10.00%	3.67%
4	TOTAL CAPITALIZATION	\$ 314,201,784	\$ -	\$ 314,201,784	100.00%		

5 WEIGHTED COST OF CAPITAL

7.10%

REFERENCES:

- COLUMN (A): COMPANY SCHEDULE D-1
- COLUMN (B): TESTIMONY, WAR
- COLUMN (C): COLUMN (A) + COLUMN (B)
- COLUMN (D): COLUMN (C) ÷ COLUMN (C), LINE 4
- COLUMN (E): LINE 1 - SCHEDULE WAR-1, PAGE 2; LINE 3 - TESTIMONY, WAR

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
COST OF CAPITAL SUMMARY

DOCKET NO. W-01303A-05-0405
SCHEDULE WAR - 1, PAGE 2 OF 2

WEIGHTED COST OF DEBT

LINE NO.	(A) DESCRIPTION	(B) ISSUANCE DATE	(C) MATURITY DATE	(D) END OF TEST YEAR BALANCE	(E) ANNUAL INTEREST	(F) INTEREST RATE	(G) TEST YEAR BALANCE RATIOS	(H) WEIGHTED COST OF DEBT
1	LONG-TERM SENIOR NOTES	1-Dec-99	15-Aug-08	\$ 4,500,000	\$ 320,490	7.120%	2.26%	0.161%
2	LONG-TERM PROMISSORY NOTES	30-Sep-04	30-Sep-14	25,000,000	1,230,000	4.920%	12.58%	0.619%
3	LONG-TERM PROMISSORY NOTES	6-Nov-01	6-Nov-06	3,500,000	199,850	5.710%	1.76%	0.100%
4	LONG-TERM PROMISSORY NOTES	14-Jan-02	5-Nov-06	154,948,119	8,847,538	5.710%	77.95%	4.451%
5	LONG-TERM NOTE - MARICOPA COUNTY	1-Sep-97	1-Sep-28	10,635,000	163,779	1.540%	5.35%	0.082%
6	PILR - MONTEREY	1-Sep-93	1-Sep-12	64,599	4,044	6.260%	0.03%	0.002%
7	PILR - MONTEREY/LINCOLN	30-Dec-93	1-Aug-13	60,873	4,371	7.180%	0.03%	0.002%
8	PILR - ROSALEE	26-Jun-95	1-Aug-25	49,463	3,551	7.180%	0.02%	0.001%
9	PILR - TO DEVELOPMENT	26-Jul-95	1-Aug-15	33,374	1,922	5.760%	0.02%	0.001%
10								
11	TOTALS			\$ 198,791,428	\$ 10,775,545		100.00%	

WEIGHTED COST OF DEBT

5.42%

REFERENCES:

- COLUMN (A): COMPANY SCHEDULE D-1
- COLUMN (B): ACC STAFF DATA REQUEST 3-3
- COLUMN (C): ACC STAFF DATA REQUEST 3-3
- COLUMN (D): COMPANY SCHEDULE D-1
- COLUMN (E): COMPANY SCHEDULE D-1
- COLUMN (F): COLUMN (E) + COLUMN (D)
- COLUMN (G): LINES 1 THRU 9 + LINE 11
- COLUMN (H): COLUMN (F) x COLUMN (G)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
DCF COST OF EQUITY CAPITAL

DOCKET NO. W-01303A-05-0405
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	2.87%	+	7.72%	=	10.60%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.14%	+	6.54%	=	9.68%
3	SWWC	SOUTHWEST WATER COMPANY	1.44%	+	7.09%	=	8.53%
4	WTR	AQUA AMERICA, INC.	1.75%	+	7.45%	=	9.20%
5		WATER COMPANY AVERAGE					9.50%
6	CGC	CASCADE NATURAL GAS CORPORATION	4.72%	+	2.22%	=	6.94%
7	KSE	KEYSPAN CORP.	5.33%	+	3.34%	=	8.67%
8	LG	LACLEDE GROUP, INC.	4.64%	+	3.35%	=	7.99%
9	NWN	NORTHWEST NATURAL GAS CO.	3.97%	+	5.31%	=	9.28%
10	PGL	PEOPLES ENERGY CORPORATION	5.98%	+	3.64%	=	9.62%
11	SJI	SOUTH JERSEY INDUSTRIES, INC.	6.21%	+	7.07%	=	13.28%
12	SWX	SOUTHWEST GAS CORPORATION	3.07%	+	6.51%	=	9.58%
13	WGL	WGL HOLDINGS, INC.	4.37%	+	5.09%	=	9.46%
16		NATURAL GAS LDC AVERAGE					9.35%

REFERENCES:

COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
DIVIDEND YIELD CALCULATION

DOCKET NO. W-01303A-05-0405
SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	+	(B) AVERAGE STOCK PRICE (PER SHARE)	=	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	\$0.90	+	\$31.33	=	2.87%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.14	+	36.29	=	3.14%
3	SWWC	SOUTHWEST WATER COMPANY	0.20	+	13.87	=	1.44%
4	WTR	AQUA AMERICA, INC.	0.57	+	32.68	=	1.75%
5		WATER COMPANY AVERAGE					2.30%
6	CGC	CASCADE NATURAL GAS CORPORATION	\$0.96	+	\$20.34	=	4.72%
7	KSE	KEYSPAN CORP.	1.82	+	34.16	=	5.33%
8	LG	LACLEDE GROUP, INC.	1.38	+	29.74	=	4.64%
9	NWN	NORTHWEST NATURAL GAS CO.	1.38	+	34.73	=	3.97%
10	PGL	PEOPLES ENERGY CORPORATION	2.18	+	36.48	=	5.98%
11	SJI	SOUTH JERSEY INDUSTRIES, INC.	1.75	+	28.20	=	6.21%
12	SWX	SOUTHWEST GAS CORPORATION	0.82	+	26.75	=	3.07%
13	WGL	WGL HOLDINGS, INC.	1.33	+	30.49	=	4.37%
16		NATURAL GAS LDC AVERAGE					4.79%

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT
SURVEY - RATINGS & REPORTS DATED 10/28/2005 (WATER COMPANIES) AND 12/16/2005 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 10/24/2005 TO 12/16/2005
STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) ÷ COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-01303A-05-0405
SCHEDULE WAR - 4
PAGE 1 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	6.00%	+	1.72%	=	7.72%
2	CWT	CALIFORNIA WATER SERVICE GROUP	4.00%	+	2.54%	=	6.54%
3	SWWC	SOUTHWEST WATER COMPANY	6.00%	+	1.09%	=	7.09%
4	WTR	AQUA AMERICA, INC.	6.00%	+	1.45%	=	7.45%
5		WATER COMPANY AVERAGE					7.20%
6	CGC	CASCADE NATURAL GAS CORPORATION	1.75%	+	0.47%	=	2.22%
7	KSE	KEYSPAN CORP.	3.00%	+	0.34%	=	3.34%
8	LG	LACLEDE GROUP, INC.	3.00%	+	0.35%	=	3.35%
9	NWN	NORTHWEST NATURAL GAS CO.	5.00%	+	0.31%	=	5.31%
10	PGL	PEOPLES ENERGY CORPORATION	3.00%	+	0.64%	=	3.64%
11	SJI	SOUTH JERSEY INDUSTRIES, INC.	6.00%	+	1.07%	=	7.07%
12	SWX	SOUTHWEST GAS CORPORATION	6.00%	+	0.51%	=	6.51%
13	WGL	WGL HOLDINGS, INC.	5.00%	+	0.09%	=	5.09%
16		NATURAL GAS LDC AVERAGE					4.57%

REFERENCES:

COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-01303A-05-0405
SCHEDULE WAR - 4
PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	(B) $x \{ [((M + B) + 1) + 2] - 1 \}$	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	3.25%	$x \{ [((2.06) + 1) + 2] - 1 \}$	= 1.72%
2	CWT	CALIFORNIA WATER SERVICE GROUP	4.00%	$x \{ [((2.27) + 1) + 2] - 1 \}$	= 2.54%
3	SWWC	SOUTHWEST WATER COMPANY	2.00%	$x \{ [((2.09) + 1) + 2] - 1 \}$	= 1.09%
4	WTR	AQUA AMERICA, INC.	1.00%	$x \{ [((3.89) + 1) + 2] - 1 \}$	= 1.45%
5	WATER COMPANY AVERAGE				1.70%
6	CGC	CASCADE NATURAL GAS CORPORATION	1.00%	$x \{ [((1.95) + 1) + 2] - 1 \}$	= 0.47%
7	KSE	KEYSPAN CORP.	2.00%	$x \{ [((1.34) + 1) + 2] - 1 \}$	= 0.34%
8	LG	LACLEDE GROUP, INC.	1.00%	$x \{ [((1.70) + 1) + 2] - 1 \}$	= 0.35%
9	NWN	NORTHWEST NATURAL GAS CO.	1.00%	$x \{ [((1.62) + 1) + 2] - 1 \}$	= 0.31%
10	PGL	PEOPLES ENERGY CORPORATION	1.75%	$x \{ [((1.73) + 1) + 2] - 1 \}$	= 0.64%
11	SJI	SOUTH JERSEY INDUSTRIES, INC.	2.00%	$x \{ [((2.07) + 1) + 2] - 1 \}$	= 1.07%
12	SWX	SOUTHWEST GAS CORPORATION	3.00%	$x \{ [((1.34) + 1) + 2] - 1 \}$	= 0.51%
13	WGL	WGL HOLDINGS, INC.	0.25%	$x \{ [((1.71) + 1) + 2] - 1 \}$	= 0.09%
16	NATURAL GAS LDC AVERAGE				0.47%

REFERENCES:

COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 10/28/2005 (WATER COMPANIES) AND 12/16/2005 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-01303A-05-0405
SCHEDULE WAR - 5, PAGE 1 OF 3

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (r) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	2000	0.3281	9.30%	3.05%	12.74	15.12	
2			2001	0.3556	10.10%	3.59%	13.22	15.12	
3			2002	0.3507	9.50%	3.33%	14.05	15.18	
4			2003	-0.1282	5.60%	-0.72%	13.97	15.21	
5			2004	0.1524	6.50%	0.99%	14.98	16.77	
6			GROWTH 2000 - 2004			2.05%	4.00%		2.62%
7			2005	0.2500	8.00%	2.00%		17.25	2.86%
8			2006	0.3724	9.00%	3.35%		18.00	3.60%
9			2008-10	0.5429	12.00%	6.51%	3.50%	20.00	3.59%
10									
11	CWT	CALIFORNIA WATER SERVICE GROUP	2000	0.1603	10.10%	1.62%	12.90	15.15	
12			2001	-0.1915	7.20%	-1.38%	12.95	15.18	
13			2002	0.1040	9.50%	0.99%	13.12	15.18	
14			2003	0.0744	7.90%	0.59%	14.44	16.93	
15			2004	0.2260	9.00%	2.03%	15.65	18.37	
16			GROWTH 2000 - 2004			0.77%	1.00%		4.94%
17			2005	0.1556	8.50%	1.32%		18.75	2.07%
18			2006	0.3235	10.00%	3.24%		19.25	2.37%
19			2008-10	0.4233	11.00%	4.66%	5.00%	23.00	4.60%
20									
21	SWWC	SOUTHWEST WATER COMPANY	2000	0.6500	11.10%	7.22%	3.61	13.33	
22			2001	0.6591	11.40%	7.51%	4.03	13.50	
23			2002	0.6098	9.70%	5.91%	4.49	13.66	
24			2003	0.6383	9.10%	5.81%	5.14	15.40	
25			2004	0.2083	3.60%	0.75%	6.48	19.40	
26			GROWTH 2000 - 2004			5.44%	13.00%		9.84%
27			2005	0.4737	6.00%	2.84%		19.50	0.52%
28			2006	0.5600	7.00%	3.92%		20.00	1.53%
29			2008-10	0.6667	9.50%	6.33%	9.00%	21.50	2.08%
30									
31	WTR	AQUA AMERICA, INC.	2000	0.3871	11.70%	4.53%	5.13	83.87	
32			2001	0.4118	12.40%	5.11%	5.53	85.48	
33			2002	0.4028	12.70%	5.12%	5.81	84.90	
34			2003	0.3947	10.20%	4.03%	7.12	92.59	
35			2004	0.4235	10.70%	4.53%	7.85	95.38	
36			GROWTH 2000 - 2004			4.66%	10.50%		3.27%
37			2005	0.4592	12.00%	5.51%		96.00	0.65%
38			2006	0.4727	12.00%	5.67%		96.50	0.59%
39			2008-10	0.4929	12.50%	6.16%	9.00%	98.00	0.54%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY

COLUMN (C): RATINGS & REPORTS DATED 10/28/2005

COLUMN (D): COLUMNS (A) x COLUMN (B)

COLUMN (E): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2000 - 2004

COLUMN (D): VALUE LINE INVESTMENT SURVEY

COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE

COLUMN (E): VALUE LINE INVESTMENT SURVEY

COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (r) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	CGC	CASCADE NATURAL GAS CORPORATION	2000	0.3094	12.90%	3.99%	10.79	11.05	
2			2001	0.3469	13.30%	4.61%	11.01	11.05	
3			2002	0.1504	10.90%	1.64%	10.34	11.05	
4			2003	-0.1034	8.60%	-0.89%	10.11	11.13	
5			2004	0.1933	11.20%	2.16%	10.52	11.27	
6			GROWTH 2000 - 2004			2.30%			0.49%
7			2005	-0.1707	7.50%	-1.28%		11.41	1.24%
8			2006	-0.0105	9.00%	-0.09%		11.40	0.58%
9			2008-10	0.2160	8.50%	1.84%	7.00%	12.00	1.26%
10									
11	KSE	KEYSPAN CORP.	2000	0.1524	10.00%	1.52%	20.65	136.36	
12			2001	-0.0349	8.20%	-0.29%	20.73	139.43	
13			2002	0.3527	13.30%	4.69%	20.67	142.42	
14			2003	0.3206	11.40%	3.65%	22.94	159.66	
15			2004	0.2664	10.20%	2.72%	24.22	160.82	
16			GROWTH 2000 - 2004			2.46%	1.50%		4.21%
17			2005	0.2571	9.50%	2.44%		174.50	8.51%
18			2006	0.2720	9.50%	2.58%		175.00	4.32%
19			2008-10	0.3226	10.50%	3.39%	5.00%	177.00	1.94%
20									
21	LG	LACLEDE GROUP, INC.	2000	0.0219	9.10%	0.20%	14.99	18.88	
22			2001	0.1677	10.50%	1.76%	15.26	18.88	
23			2002	-0.1356	7.80%	-1.06%	15.07	18.96	
24			2003	0.2637	11.60%	3.06%	15.65	19.11	
25			2004	0.2582	10.10%	2.61%	16.96	20.98	
26			GROWTH 2000 - 2004			1.31%	1.50%		2.67%
27			2005	0.2789	11.00%	3.07%		21.00	0.10%
28			2006	0.3050	11.00%	3.36%		21.50	1.23%
29			2008-10	0.3696	8.50%	3.14%	9.50%	21.50	0.49%
30									
31	NWN	NORTHWEST NATURAL GAS CO.	2000	0.3073	10.00%	3.07%	17.93	25.23	
32			2001	0.3351	10.20%	3.42%	18.56	25.23	
33			2002	0.2222	8.50%	1.89%	18.88	25.59	
34			2003	0.2784	9.00%	2.51%	19.52	25.94	
35			2004	0.3011	8.90%	2.68%	20.64	27.55	
36			GROWTH 2000 - 2004			2.71%	3.50%		2.22%
37			2005	0.3767	10.00%	3.77%		27.75	0.73%
38			2006	0.3822	10.50%	4.01%		28.00	0.81%
39			2008-10	0.4036	10.50%	4.24%	4.50%	29.00	1.03%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY

- RATINGS & REPORTS DATED 12/16/2005

COLUMN (C): COLUMN (A) x COLUMN (B)

COLUMN (D): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2000 - 2004

COLUMN (D): VALUE LINE INVESTMENT SURVEY

COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE

COLUMN (E): VALUE LINE INVESTMENT SURVEY

COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-01303A-05-0405
SCHEDULE WAR - 5, PAGE 3 OF 3

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (r) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	PGL	PEOPLES ENERGY CORPORATION	2000	0.2620	12.40%	3.25%	22.02	35.30	
2			2001	0.3544	13.90%	4.93%	22.76	35.40	
3			2002	0.2607	12.30%	3.21%	22.74	35.46	
4			2003	0.2613	12.30%	3.21%	23.11	36.69	
5			2004	0.0092	9.40%	0.09%	23.06	36.69	
6			GROWTH 2000 - 2004			2.94%	2.50%		0.97%
7			2005	0.0354	10.80%	0.38%		38.00	3.57%
8			2006	0.0833	11.00%	0.92%		38.00	1.77%
9			2008-10	0.2516	12.00%	3.02%	2.00%	35.00	-0.94%
10									
11	SJI	SOUTH JERSEY INDUSTRIES, INC.	2000	0.3241	14.80%	4.80%	7.25	23.00	
12			2001	0.3565	12.80%	4.56%	7.81	23.72	
13			2002	0.3852	12.50%	4.82%	9.67	24.41	
14			2003	0.4307	11.60%	5.00%	11.26	26.46	
15			2004	0.4810	12.50%	6.01%	12.41	27.76	
16			GROWTH 2000 - 2004			5.04%	11.50%		4.81%
17			2005	0.5401	13.50%	7.28%		28.70	3.39%
18			2006	0.5350	13.00%	6.96%		29.00	2.21%
19			2008-10	0.5000	11.50%	5.75%	9.50%	31.00	2.23%
20									
21	SWX	SOUTHWEST GAS CORPORATION	2000	0.3223	7.20%	2.32%	16.82	31.71	
22			2001	0.2870	6.60%	1.89%	17.27	32.49	
23			2002	0.2931	6.50%	1.91%	17.91	33.29	
24			2003	0.2743	6.10%	1.67%	18.42	34.23	
25			2004	0.5060	8.30%	4.20%	19.18	36.79	
26			GROWTH 2000 - 2004			2.40%	2.40%		3.78%
27			2005	0.4143	7.00%	2.90%		39.00	6.01%
28			2006	0.5030	8.00%	4.02%		39.00	2.96%
29			2008-10	0.6653	10.50%	6.99%	4.00%	41.50	2.44%
30									
31	WGL	WGL HOLDINGS, INC.	2000	0.3073	11.70%	3.59%	15.31	46.47	
32			2001	0.3298	11.70%	3.86%	16.24	48.54	
33			2002	-0.1140	7.20%	NMF	15.78	48.56	
34			2003	0.4435	14.00%	6.21%	16.25	48.63	
35			2004	0.3434	11.70%	4.02%	16.95	48.67	
36			GROWTH 2000 - 2004			4.42%	3.00%		1.16%
37			2005	0.3333	11.50%	3.83%		48.70	0.06%
38			2006	0.3649	10.50%	3.83%		48.70	0.03%
39			2008-10	0.4042	11.00%	4.45%	5.00%	48.80	0.05%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY

- RATINGS & REPORTS DATED 12/16/2005

COLUMN (C): COLUMN (A) x COLUMN (B)

COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2000 - 2004

COLUMN (D): VALUE LINE INVESTMENT SURVEY

COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE

COLUMN (E): VALUE LINE INVESTMENT SURVEY

COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
GROWTH RATE COMPARISON

DOCKET NO. W-01303A-05-0405
SCHEDULE WAR - 6

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED		(D) VALUE LINE HISTORIC		(E) VALUE LINE & ZACKS AVGS.		(F) 5 - YEAR COMPOUND HISTORY	
				EPS	DPS	EPS	DPS	BVPS		EPS	BVPS
1	AWR	7.72%	-	12.00%	1.50%	1.50%	1.00%	4.00%	3.92%	-4.83%	4.13%
2	CWT	6.54%	6.00%	8.50%	1.50%	-6.50%	1.00%	1.00%	2.36%	2.75%	4.95%
3	SWWC	7.09%	-	15.00%	9.00%	7.00%	10.50%	13.00%	10.58%	-11.99%	15.75%
4	WTR	7.45%	-	10.00%	8.00%	8.50%	6.50%	10.50%	8.75%	8.21%	11.22%
5				11.38%	5.00%	6.63%	4.75%	7.13%		-1.47%	9.01%
6	AVERAGES	7.20%	6.00%		7.67%		4.83%		6.40%		3.85%

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED		(D) VALUE LINE HISTORIC		(E) VALUE LINE & ZACKS AVGS.		(F) 5 - YEAR COMPOUND HISTORY	
				EPS	DPS	EPS	DPS	BVPS		EPS	BVPS
1	CGC	2.22%	4.10%	3.00%	0.50%	7.00%	1.00%	-	3.12%	-3.81%	-0.63%
2	KSE	3.34%	9.40%	1.00%	2.00%	5.00%	4.00%	1.50%	6.27%	3.82%	4.07%
3	LG	3.35%	3.50%	6.00%	1.50%	9.50%	0.50%	1.50%	3.14%	7.36%	3.13%
4	NWN	5.31%	5.80%	8.00%	4.50%	4.50%	3.00%	3.50%	4.33%	0.96%	3.58%
5	PGL	3.64%	6.30%	3.00%	1.50%	2.00%	2.00%	2.50%	2.76%	-5.30%	1.16%
6	SJI	7.07%	5.30%	8.00%	6.00%	9.50%	1.50%	11.50%	7.47%	9.98%	14.38%
7	SWX	6.51%	4.50%	10.50%	1.50%	4.00%	1.50%	4.00%	4.33%	8.23%	3.34%
8	WGL	5.09%	5.30%	5.00%	2.00%	5.00%	2.00%	3.00%	3.40%	2.55%	2.58%
9				5.56%	2.44%	5.81%	1.75%	3.93%		2.97%	3.95%
10	AVERAGES	4.57%	5.53%		4.60%		3.58%		4.35%		2.63%

REFERENCES:

COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 10/28/2005 (WATER COMPANIES) AND 12/16/2005 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 10/28/2005 (WATER COMPANIES) AND 12/16/2005 (NATURAL GAS LDC's)
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1, 3, 5 AND 7
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 10/28/2005 (WATER COMPANIES) AND 12/16/2005 (NATURAL GAS LDC's)

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	(A)											(B)		
		k	=	r _f	+	[β	x	(r _m	-	r _f)]	=	EXPECTED RETURN
1	AWR	k	=	3.96%	+	[0.70	x	(10.40%	-	3.96%)]	=	8.47%
2	CWT	k	=	3.96%	+	[0.75	x	(10.40%	-	3.96%)]	=	8.79%
3	SWWC	k	=	3.96%	+	[0.65	x	(10.40%	-	3.96%)]	=	8.14%
4	WTR	k	=	3.96%	+	[0.80	x	(10.40%	-	3.96%)]	=	9.11%
5	WATER COMPANY AVERAGE						0.73							8.63%	
6	CGC	k	=	3.96%	+	[0.80	x	(10.40%	-	3.96%)]	=	9.11%
7	KSE	k	=	3.96%	+	[0.85	x	(10.40%	-	3.96%)]	=	9.43%
8	LG	k	=	3.96%	+	[0.80	x	(10.40%	-	3.96%)]	=	9.11%
9	NWN	k	=	3.96%	+	[0.70	x	(10.40%	-	3.96%)]	=	8.47%
10	PGL	k	=	3.96%	+	[0.85	x	(10.40%	-	3.96%)]	=	9.43%
11	SJI	k	=	3.96%	+	[0.65	x	(10.40%	-	3.96%)]	=	8.14%
12	SWX	k	=	3.96%	+	[0.80	x	(10.40%	-	3.96%)]	=	9.11%
13	WGL	k	=	3.96%	+	[0.80	x	(10.40%	-	3.96%)]	=	9.11%
14	NATURAL GAS LDC AVERAGE						0.78							8.99%	

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
β = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 11/11/2005 THROUGH 12/16/2005 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2004 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2004 YEARBOOK.

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
CAPM COST OF EQUITY CAPITAL

DOCKET NO. W-01303A-05-0405
SCHEDULE WAR - 7
PAGE 2 OF 2

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	(A)											(B)		
		k	=	r _f	+	[β	x	(r _m	-	r _f)]	=	EXPECTED RETURN
1	AWR	k	=	3.96%	+	[0.70	x	(12.40%	-	3.96%)]	=	9.87%
2	CWT	k	=	3.96%	+	[0.75	x	(12.40%	-	3.96%)]	=	10.29%
3	SWWC	k	=	3.96%	+	[0.65	x	(12.40%	-	3.96%)]	=	9.44%
4	WTR	k	=	3.96%	+	[0.80	x	(12.40%	-	3.96%)]	=	10.71%
5	WATER COMPANY AVERAGE						0.73								10.08%
6	CGC	k	=	3.96%	+	[0.80	x	(12.40%	-	3.96%)]	=	10.71%
7	KSE	k	=	3.96%	+	[0.85	x	(12.40%	-	3.96%)]	=	11.13%
8	LG	k	=	3.96%	+	[0.80	x	(12.40%	-	3.96%)]	=	10.71%
9	NWN	k	=	3.96%	+	[0.70	x	(12.40%	-	3.96%)]	=	9.87%
10	PGL	k	=	3.96%	+	[0.85	x	(12.40%	-	3.96%)]	=	11.13%
11	SJI	k	=	3.96%	+	[0.65	x	(12.40%	-	3.96%)]	=	9.44%
12	SWX	k	=	3.96%	+	[0.80	x	(12.40%	-	3.96%)]	=	10.71%
13	WGL	k	=	3.96%	+	[0.80	x	(12.40%	-	3.96%)]	=	10.71%
14	NATURAL GAS LDC AVERAGE						0.78								10.55%

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
β = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 11/11/2005 THROUGH 12/16/2005 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2004 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2004 YEARBOOK.

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-01303A-05-0405
SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 \$)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.40%	1.90%	10.01%	6.98%	8.10%	7.49%	8.61%	9.86%	10.06%
2	1991	4.21%	-0.20%	8.46%	5.45%	5.69%	5.38%	8.14%	9.36%	9.55%
3	1992	3.01%	3.30%	6.25%	3.25%	3.52%	3.43%	7.67%	8.69%	8.86%
4	1993	2.99%	2.70%	6.00%	3.00%	3.02%	3.00%	6.60%	7.59%	7.91%
5	1994	2.56%	4.00%	7.14%	3.60%	4.20%	4.25%	7.37%	8.31%	8.63%
6	1995	2.83%	2.50%	8.83%	5.21%	5.84%	5.49%	6.88%	7.89%	8.29%
7	1996	2.95%	3.70%	8.27%	5.02%	5.30%	5.01%	6.70%	7.75%	8.17%
8	1997	1.70%	4.50%	8.44%	5.00%	5.46%	5.06%	6.61%	7.60%	8.12%
9	1998	1.60%	4.20%	8.35%	4.92%	5.35%	4.78%	5.58%	7.04%	7.27%
10	1999	2.70%	4.50%	7.99%	4.62%	4.97%	4.64%	5.86%	7.62%	7.88%
11	2000	3.40%	3.70%	9.23%	5.73%	6.24%	5.82%	5.94%	8.24%	8.36%
12	2001	1.60%	0.80%	6.92%	3.41%	3.88%	3.38%	5.95%	7.59%	8.02%
13	2002	2.40%	1.60%	4.67%	1.17%	1.66%	1.60%	5.38%	7.41%	7.98%
14	2003	1.90%	2.70%	4.12%	2.03%	1.13%	1.01%	4.92%	6.18%	6.64%
15	2004	2.23%	4.20%	4.34%	2.35%	1.35%	1.37%	5.03%	5.77%	6.20%
16	CURRENT	2.99%	4.30%	7.25%	5.25%	4.25%	3.93%	4.67%	5.65%	6.06%

REFERENCES:

COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (F): CURRENT, THE WALL STREET JOURNAL, DATED 12/20/2005
COLUMN (G) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 12/16/2005
COLUMN (H) THROUGH (J): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL
COLUMN (H) THROUGH (I): 2003 MERGENT NEWS REPORTS

ARIZONA-AMERICAN WATER COMPANY
PARADISE VALLEY DISTRICT
TEST YEAR ENDED DECEMBER 10, 2004
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. W-01303A-05-0405
SCHEDULE WAR - 9

LINE NO.	AWR	PCT.	CWT	PCT.	SWWC	PCT.	WTR	PCT.	WATER COMPANY AVERAGE	PCT.
1 DEBT	\$ 228.9	47.7%	\$ 274.8	48.6%	\$ 115.8	47.9%	\$ 784.5	51.2%	\$ 468.0	49.8%
2										
3 PREFERRED STOCK	0.0	0.0%	3.5	0.6%	0.0	0.0%	0.0	0.0%	1.2	0.1%
4										
5 COMMON EQUITY	251.5	52.3%	287.6	50.8%	126.2	52.1%	748.5	48.8%	471.2	50.1%
6										
7 TOTALS	\$ 480.4	100%	\$ 565.9	100%	\$ 242.0	100%	\$ 1,532.9	100%	\$ 940.4	100%
8										
9										
10										
11										
12 DEBT	\$ 176.4	59.8%	\$ 4,418.7	53.0%	\$ 380.3	51.6%	\$ 568.5	54.0%		
13										
14 PREFERRED STOCK	0.0	0.0%	19.7	0.2%	1.1	0.1%	0.0	0.0%		
15										
16 COMMON EQUITY	118.5	40.2%	3,894.7	46.7%	355.9	48.3%	484.0	46.0%		
17										
18 TOTALS	\$ 294.9	100%	\$ 8,333.1	100%	\$ 737.3	100%	\$ 1,052.5	100%		
19										
20										
21										
22										
23 DEBT	\$ 897.4	50.8%	\$ 328.9	48.7%	\$ 1,181.4	60.8%	\$ 590.2	40.1%	\$ 1,067.7	52.5%
24										
25 PREFERRED STOCK	0.0	0.0%	1.7	0.3%	100.0	5.1%	28.1	1.9%	18.8	0.9%
26										
27 COMMON EQUITY	870.1	49.2%	344.4	51.0%	663.0	34.1%	853.4	58.0%	948.0	46.6%
28										
29 TOTALS	\$ 1,767.5	100%	\$ 675.0	100%	\$ 1,944.4	100%	\$ 1,471.7	100%	\$ 2,034.6	100%

REFERENCE:
2004 SEC 10-K FILINGS